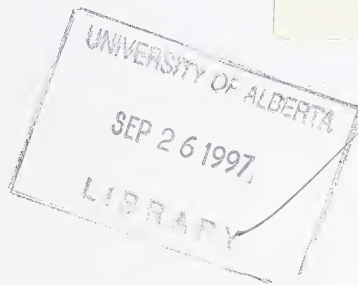


**Public Accounts
1996-97
Volume 3**

**Financial Statements of Provincial
Agencies, Commercial Enterprises and
Crown-controlled Corporations**





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Public Accounts
1996-97
Volume 3

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Crown-controlled Corporations**

PUBLIC ACCOUNTS 1996-97

PREFACE

The Public Accounts of Alberta are prepared in accordance with the provisions of section 77 of the Financial Administration Act. The Public Accounts are presented in four volumes.

Volume 1 contains the audited consolidated financial statements of the Province of Alberta. The consolidated financial statements include the accounts of government entities including the General Revenue Fund, revolving funds, the Alberta Heritage Savings Trust Fund, and other regulated funds, Provincial agencies and Crown-controlled corporations.

Volume 2 contains the audited financial statements of the General Revenue Fund, details of General Revenue Fund expenditure and revenue by department, audited financial statements of revolving funds and regulated funds, and reports that are required to be included with the Public Accounts in accordance with the Financial Administration Act and other statutes, or by direction of the Provincial Treasurer.

This volume contains the audited financial statements of Provincial agencies, commercial enterprises and Crown-controlled corporations. Audited financial statements of subsidiaries of Provincial agencies are also included in this volume.

Volume 4 contains the audited financial statements of universities, university foundations, the Banff Centre for Continuing Education, public colleges, technical institutes, the Alberta Cancer Board, the Alberta Heritage Foundation for Medical Research, the Provincial Mental Health Advisory Board, Regional Health Authorities and the Workers' Compensation Board.

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SECTION 1

1996-97

PUBLIC ACCOUNTS

PROVINCIAL AGENCIES - FINANCIAL STATEMENTS

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PROVINCIAL AGENCIES - FINANCIAL STATEMENTS

Introduction:

Section 1(1)(l) of the Financial Administration Act defines a Provincial agency as a Provincial corporation or Provincial committee.

According to the definition in Section 1(1)(n) of the Financial Administration Act, a Provincial corporation “means

- (i) a corporation that is incorporated by or under an Act of the Legislature, other than a local or private Act, all or a majority of whose members or directors are appointed or designated, either by their personal names or by their names of office, by an Act of the Legislature or regulations under an Act of the Legislature, by an order of the Lieutenant Governor in Council or a Minister of the Crown or by any combination thereof, or
- (ii) a corporation all of whose issued voting shares of every class are owned by the Crown or held in trust for the Crown or are partly owned by the Crown and partly held in trust for the Crown, or
- (iii) a corporation that is a subsidiary of a corporation referred to in subclause (i) or (ii) or that is controlled by a corporation referred to in subclause (i) or (ii) directly or indirectly through one or more intermediary corporations,

but does not include a new town or a housing authority incorporated under section 42 of the Alberta Mortgage and Housing Corporation Act or a management body within the meaning of the Alberta Housing Act, a board of a hospital district appointed by an order made under section 8 of the Hospitals Act or a regional health authority or subsidiary health corporation under the Regional Health Authorities Act.”

Section 1(1)(m) of the Financial Administration Act defines a Provincial committee as “an unincorporated board, commission, council or other body that is not a department or part of a department, all or a majority of whose members are appointed or designated, either by their personal names or by their names of office, by an Act of the Legislature or regulations under an Act of the Legislature, by an order of the Lieutenant Governor in Council or of a Minister of the Crown or by any combination thereof.”

All the Provincial agencies included in this section are Provincial corporations except the Human Rights, Citizenship and Multiculturalism Education Fund and the Tourism Education Fund, which are Provincial committees.

The Provincial corporations included in this section are subsidized in some manner by the General Revenue Fund and are considered to complement a Government program. They are included in the consolidated financial statements after adjusting the accounts to a basis consistent with the Accounting Policies note in the consolidated financial statements in Volume 1.

The large majority of Provincial committees do not operate funds. They are financed and accounted for as departmental expenditure under a supply vote. Included in this section are those committees that operate funds. They are also included in the consolidated financial statements.

AGRICULTURE FINANCIAL SERVICES CORPORATION
FINANCIAL STATEMENTS
MARCH 31, 1997

Auditor's Report
Balance Sheet
Statement of Revenue, Expense and Surplus
Statement of Changes in Financial Position
Notes to the Financial Statements
Schedule of Revenue, Expense and Surplus
Schedule of Administration Expense
Schedule of Salaries and Benefits

AUDITOR'S REPORT

To the Board of Directors of the
Agriculture Financial Services Corporation

I have audited the balance sheet of the Agriculture Financial Services Corporation as at March 31, 1997 and the statements of revenue, expense and surplus, and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
May 16, 1997

AGRICULTURE FINANCIAL SERVICES CORPORATION
BALANCE SHEET
AS AT MARCH 31, 1997

	1997	1996
ASSETS		
Cash	\$ 81,325,808	\$ 115,858,252
Accounts receivable (Note 5)	5,704,484	6,079,479
Due from Province of Alberta (Note 6)	70,334,074	-
Due from Government of Canada (Note 7)	15,461,425	-
Loans receivable (Note 8)	753,826,845	870,328,593
Investments (Note 9)	179,932,890	159,778,075
Other assets (Note 10)	773,969	5,800,361
Capital assets (Note 11)	4,404,276	4,503,158
	<u>\$ 1,111,763,771</u>	<u>\$ 1,162,347,918</u>
LIABILITIES AND SURPLUS		
Accounts payable and accrued liabilities (Note 12)	\$ 6,589,021	\$ 25,484,798
Estimated indemnities payable (Note 13)	125,315,777	93,456,337
Due to Province of Alberta (Note 6)	-	46,312,376
Due to Government of Canada (Note 7)	-	23,875,712
Due to Crop Reinsurance Fund of Alberta (Note 14)	45,172,417	28,927,288
Due to Crop Reinsurance Fund of Canada for Alberta (Note 14)	294,616	906,281
Allowance for losses on loan guarantees (Note 15)	6,805,000	4,998,000
Long-term debt (Note 16)	769,633,826	848,930,504
Deferred Canada-Alberta Partnership on Agri-food contribution (Note 7)	3,718,447	2,565,079
	<u>957,529,104</u>	<u>1,075,456,375</u>
Surplus	154,234,667	86,891,543
	<u>\$ 1,111,763,771</u>	<u>\$ 1,162,347,918</u>

Approved by the Board:

Bob Hymas, Director

Brian F. Manning
President & Managing Director

The accompanying notes and schedules are part of these financial statements.

AGRICULTURE FINANCIAL SERVICES CORPORATION
STATEMENT OF REVENUE, EXPENSE AND SURPLUS
FOR THE YEAR ENDED MARCH 31, 1997

	1997		1996
	Actual (Schedule 1)	Budget (Note 3(a))	Actual
Revenue:			
Premiums from insured persons	\$ 87,660,658	\$ 86,475,100	\$ 79,375,023
Interest (Note 17)	72,920,890	73,024,882	70,826,347
Contribution from Province of Alberta	143,117,000	190,394,747	184,373,263
Contribution from Government of Canada	46,958,579	42,139,342	39,126,072
Investment income	19,862,280	7,000,000	14,700,940
Fees and other income	3,137,894	1,400,000	1,660,467
Amortization of loan discounts	12,516,612	1,976,180	8,800,600
	<u>386,173,913</u>	<u>402,410,251</u>	<u>398,862,712</u>
Expense:			
Indemnities	163,000,024	241,374,724	164,774,945
Interest	73,661,906	79,847,000	84,645,128
Reinsurance	33,086,957	41,265,060	32,024,573
Disaster assistance interest benefit	-	-	16,320,780
Farm loan incentives	7,914,231	8,891,000	8,057,436
Administration, Schedule 2	32,777,341	31,887,000	31,129,147
Provision for doubtful accounts and for losses (Note 18)	3,741,219	4,200,000	(10,176,938)
	<u>314,181,678</u>	<u>407,464,784</u>	<u>326,775,071</u>
Excess (deficiency) of revenue over expense before recoveries	71,992,235	(5,054,533)	72,087,641
Net recoveries, Schedule 1	(4,649,111)	-	(18,231,169)
Surplus (deficit) for the year	67,343,124	<u>\$ (5,054,533)</u>	53,856,472
Surplus at beginning of year	86,891,543		33,035,071
Surplus at end of year	<u>\$154,234,667</u>		<u>\$ 86,891,543</u>

AGRICULTURE FINANCIAL SERVICES CORPORATION
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
Operating activities:		
Surplus for the year	\$ 67,343,124	\$ 53,856,472
Charges not affecting cash	(11,592,149)	(17,972,302)
Changes in assets and liabilities relating to operations	(92,632,491)	92,257,566
Net cash (utilized) provided by operating activities	<u>(36,881,516)</u>	<u>128,141,736</u>
Investing activities:		
Proceeds from repayments of loans receivable and sale of properties	188,014,337	96,318,553
Loan disbursements	(62,393,431)	(76,495,189)
Change in investments	(16,924,975)	(58,362,577)
Purchase of capital assets	(874,841)	(630,243)
Proceeds on disposal of other assets	4,000,000	275,000
Proceeds on disposal of capital assets	28,724	26,643
Net cash (utilized) provided by investing activities	<u>111,849,814</u>	<u>(38,867,813)</u>
Financing activities:		
Long-term borrowing from the Province of Alberta	24,875,000	-
Short-term borrowing from the Province of Alberta	24,726,400	32,406,240
Repayment of long-term debt from the Province of Alberta	(101,969,502)	(57,127,489)
Repayment of short-term borrowing from the Province of Alberta	(57,132,640)	-
Net cash utilized by financing activities	<u>(109,500,742)</u>	<u>(24,721,249)</u>
Net increase (decrease) in cash from operating, investing and financing activities	(34,532,444)	64,552,674
Cash at beginning of year	115,858,252	51,305,578
Cash at end of year	<u>\$ 81,325,808</u>	<u>\$ 115,858,252</u>

AGRICULTURE FINANCIAL SERVICES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997

Note 1 Authority and Purpose

The Agriculture Financial Services Corporation (the "Corporation") operates under the authority of the Agriculture Financial Services Act, Chapter A-12.5, 1993.

The Corporation provides lending and insurance services and compensation programs. Its core programs and services include loans to beginning farmers, commercial lending, crop insurance and hail insurance. It also delivers other programs and services including loans to developing farmers, loan guarantees, business planning/counselling, the local opportunity bond program and the Farm Income Disaster Program. The Corporation acts as Alberta agent for commercial lending for the federal Farm Credit Corporation.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Revenue Recognition

Interest revenue on loans receivable is recognized as earned unless the ultimate collectibility of the loan is in doubt. When a loan is classified as doubtful, interest revenue is no longer recognized and, when applicable, an allowance is provided for expected losses on outstanding interest and principal balances.

Loan application fees are recognized when the applications are received and loan fees are recognized at the time of loan disbursement. Farm Income Disaster Program application and administration fees are accrued based on the number of applications and the amount of estimated indemnities. Other fees are recorded when the Corporation completes the applicable work.

(b) Cash

Cash consists of deposits in the Consolidated Cash Investment Trust Fund of the Province of Alberta. The Fund is invested primarily in securities maturing in less than one year which are either issued or guaranteed by the Canadian federal and provincial governments, deposits given by or guaranteed by chartered banks, or short-term investment-grade-quality notes of Canadian corporations. Interest is earned on the daily cash balance at the average rate of earnings of the Fund which varies depending on prevailing market interest rates.

(c) Fair Value of Financial Instruments

Short-term financial instruments are valued at their carrying amounts included on the Balance Sheet, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This approach applies to cash, accounts receivable, Due from Province of Alberta, Due from Government of Canada, accounts payable and accrued liabilities, estimated indemnities payable, Due to Province of Alberta and Due to Government of Canada. Loans receivable and Allowance for losses on loan guarantees do not have fair values disclosed due to the difficulty in determining the amount. Investments and long-term debt fair values are disclosed in their respective notes.

(d) Investments

Investments are carried at cost or amortized cost unless there is an other than temporary decline in the value of the investments, when the investments are written down to recognize the loss. Premiums and discounts on investments are amortized to investment income using the straight line method over the period to maturity of the related investment. Gains and losses realized on disposal of investments are included in investment income.

(e) Capital Assets and Amortization

Capital assets are recorded at cost. Amortization is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Building	40 years
Computer equipment	5 years
Equipment and furniture	10 years
Vehicles	5 years

(f) Property Held for Sale

Property held for sale is recorded at the lower of cost and estimated net realizable value. Cost is comprised of the balance of the loan at the date on which the Corporation obtains title to the property plus subsequent disbursements related to the property less any revenues or lease payments received.

(g) Provision for Losses on Loans and Guarantees

Provisions are established for specifically identified potential losses on loans and guarantees as well as for anticipated, but not specifically identified, losses. A specific provision is established on a loan-by-loan basis by discounting estimated future cash flows or fair value of security for impaired loans. Since the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the fair value of security is used. The change in the present value attributed to the passage of time on the expected future cash flow is reported as a credit to the provision for doubtful accounts and for losses on the Schedule of Revenue, Expense and Surplus.

An impaired loan is a loan in which there is risk of loss to the Corporation for full and timely collection of the debt. Impairment may be due to a security deficiency, inadequate cash flow, economic factors in a specific segment of the industry or a catastrophic event.

The majority of the Corporation's loan portfolio is with beginning and developing agricultural operations. Selling prices for agricultural products are subject to significant fluctuation related to world wide inventories of various commodities and subsidies provided by various governments. Further, crop production can be severely eroded during adverse weather. Therefore, the Corporation's portfolio tends to be subject to higher risk than portfolios of other lenders. The Corporation recognizes this risk by providing significant general allowances for doubtful accounts.

(h) Loan Discounting

Loans made under the disaster assistance programs, Canada-Alberta Partnership on Agri-food program, and amounts previously deferred under the Indexed Deferral Plan have been discounted because they involve significant concessionary elements. The amounts outstanding have been discounted to their estimated present value. The amounts discounted are being amortized to revenue over the lives of the concessionary terms.

(i) Pension

Liability

Accounts payable and accrued liabilities include the portion of unfunded pension liability for the Public Service Pension Plan and the Management Employees Pension Plan incurred on behalf of some of the Corporation's employees.

Expense

Pension costs comprise: the cost of pension benefits earned by employees during the year; interest on the Corporation's share of the unfunded pension liability; the amortization of deferred adjustments over the expected average remaining service life of employees which relate to the long term; adjustments to the pension obligation recognized immediately if there is reasonable assurance that a gain or loss has been realized; and the effect of the change in the ratio used to allocate the plan's total unfunded liability to participating entities. The net expense or recovery is included as part of salaries and benefits expenses.

Note 3 Financial Structure

- (a) The budget as shown in the Statement of Revenue, Expense and Surplus was approved by the Board of Directors on February 27, 1997 and reflects contributions by the Province of Alberta authorized through the Legislative Assembly. During the year, \$39,944,000 of the \$190,394,747 contribution from the Province of Alberta was reallocated to the Department of Agriculture, Food and Rural Development to be used for other purposes.
- (b) Insurance, Safety Net and Compensation Programs

Programs administered by the Corporation are funded as follows:

	Premiums	Indemnities	Administration Costs
Crop Insurance Coverage up to 80% of risk	50% Producers 25% Alberta 25% Canada	Crop Insurance Fund and Reinsurance Funds	50% Alberta 50% Canada
Farm Income Disaster	N/A	100% Alberta ⁽¹⁾	Producer fees cover about 25%; Alberta covers balance
Hail Insurance	100% Producers	Hail Insurance Fund	100% Producers
Wildlife Compensation Waterfowl	N/A	50% Alberta 50% Canada	50% Alberta 50% Canada
Other	N/A	100% Alberta	100% Alberta
Revenue Protection (Program Terminated)	33 1/3% Producers 25% Alberta 41 2/3% Canada	Revenue Protection Fund	50% Alberta 50% Canada

- ⁽¹⁾ In accordance with cost sharing agreements between the Province of Alberta and the Government of Canada, the Government of Canada provides companion program funding to Alberta to be used for agricultural programs. The Province of Alberta, in turn, provided some of these companion program funds to the Corporation to fund \$10,928,000 of the Farm Income Disaster Program indemnities.

The Crop Insurance and Waterfowl Compensation programs are administered in accordance with an agreement between the Province of Alberta and the Government of Canada. The agreement determines the percentage of premiums used to fund reinsurance and how indemnities are paid from each of the crop insurance and crop reinsurance funds. During the years ended March 31, 1996 and 1997, 15% of premiums were transferred to each of the Crop Reinsurance Fund of Alberta and the Crop Reinsurance Fund of Canada for Alberta.

The Revenue Protection Program was terminated after the final indemnities for the 1995 crop year were paid in January 1997. The surplus was distributed to producers, to Alberta and to Canada in proportion to premium contributions.

- (c) Lending Programs
- (i) The Corporation's loans are funded by borrowing from the General Revenue Fund. Prior to April 1, 1995, loans were funded through debentures issued to the Alberta Heritage Savings Trust Fund. The Corporation's lending operations are funded by contributions from the General Revenue Fund of the Province of Alberta through the Department of Agriculture, Food and Rural Development. The Canada-Alberta Partnership on Agri-food is funded by the Province of Alberta and the Government of Canada.
- (ii) Certain office accommodation and support costs, totalling approximately \$1,500,000 (1996 \$2,300,000) are provided by the Departments of Agriculture, Food and Rural Development and Public Works, Supply and Services, and accordingly, these costs are not reflected in these financial statements.

Note 4 Loan Programs and Repayment Options

- (a) Beginning Farmer Program

This program provides loans to eligible beginning farmers. Loans made under this program entitle borrowers, as long as certain conditions are met, to an incentive equal to 3% of outstanding principal over each of the first five years of the loan. Beginning farmer loans are made for terms of up to 20 years with interest at 9% and are secured by land and other farm assets.

- (b) Alberta Farm Development Loans

Alberta farm development loans are issued by financial institutions to provide short and medium term financing for producers of agricultural products in Alberta. These loans can be for a maximum of \$100,000 per individual partnership or company. The repayment terms are for periods of 20 years or less and interest rates equal to one of the following:

- lender's prime rate plus 1% for loans up to 10 years with variable rates; or
- lender's prime rate plus 1 ½% for loans over 10 years, and for fixed rate loans.

Since 1973, the Corporation has negotiated three year agreements with financial institutions, to guarantee up to 90% of individual loans and up to 10% of the total loans issued by the institution in any three year period (see Note 15).

(c) Loan Guarantees

The Corporation guarantees certain farm and agri-business loans made by other financial institutions and vendors in Alberta. The Province of Alberta indemnifies the Corporation for any losses that might be incurred on loan guarantees (see Note 15).

(d) Disaster Assistance Programs

In addition to programs offered under the Agriculture Financial Services Act, the Corporation also administers three disaster assistance programs. The programs were used to provide disaster loans, from 1990 to 1993, with non-interest bearing terms for two or five year periods. Alternatively, certain eligible borrowers could receive funds equivalent to the interest free benefit of a disaster loan.

(e) Canada-Alberta Partnership on Agri-food

This program provided financing to help stimulate private sector investment in the agriculture and food processing industry in Alberta. The program provided loans for eligible projects, which are non-interest bearing for a maximum of five years (see also Note 7(b)).

(f) Indexed Deferral Plan

Prior to March 31, 1993, the Indexed Deferral Plan allowed for the deferral of certain payments due on loans where that year's commodity price index was less than a 10-year average for the index. The terms of the deferral require that in years where the current commodity index is greater than the 10-year average index, a portion of the deferred balance will be payable. Interest is not charged on amounts deferred under this Plan.

Note 5 Accounts Receivable

	1997	1996
Premiums from insured persons:		
Crop insurance program	\$ 2,611,811	\$ 2,664,607
Hail insurance program	1,337,584	961,556
Revenue protection program	19,291	518,009
Farm Income Disaster Program fees	1,442,169	1,112,400
Recoveries, revenue protection program	157,195	1,087,909
Other	334,193	113,455
	<u>5,902,243</u>	<u>6,457,936</u>
Less allowance for doubtful accounts (Note 18)	<u>(197,759)</u>	<u>(378,457)</u>
	<u>\$ 5,704,484</u>	<u>\$ 6,079,479</u>

Note 6 Due from (to) Province of Alberta

	1997	1996
Unexpended grants and other	\$ 70,994,862	\$ 188,936
Surplus recovery	(660,788)	(15,009,025)
Notes and interest payable	-	(32,651,629)
Disaster assistance	-	1,159,342
	<u>\$ 70,334,074</u>	<u>\$ (46,312,376)</u>

Note 7 Government of Canada Funding

(a) Due from (to) Government of Canada

	1997	1996
Premiums and administration expense receivable	\$ 15,955,610	\$ 5,267,245
Surplus recovery	(494,185)	(25,017,044)
Canada-Alberta Partnership on Agri-food	-	(4,125,913)
	<u>\$ 15,461,425</u>	<u>\$ (23,875,712)</u>

(b) Deferred Canada-Alberta Partnership on Agri-food Contribution

The Corporation delivered the Canada-Alberta Partnership on Agri-food program which was funded equally by the Governments of Alberta and Canada. The amount shown in Note 7(a) does not include the deferred Canada-Alberta Partnership on Agri-food contribution.

One-half of the Government of Canada's share of the funding was repaid to Canada during the year. The other half of the Government of Canada's funding is used to defray the current and future administration and interest costs of the program. The unexpended portion of this contribution is shown as a deferred contribution on the balance sheet and is comprised of the following:

	1997	1996
Funding by the Government of Canada	\$ -	\$ 635,875
Less one half repayable	-	(317,938)
Contribution by the Government of Canada	-	317,937
Less expenses for the year	(120,855)	(844,273)
Add interest adjustment	1,274,223	-
Increase (decrease) in deferred contribution for the year	1,153,368	(526,336)
Deferred contribution at beginning of year	2,565,079	3,091,415
Deferred contribution at end of year	<u>\$ 3,718,447</u>	<u>\$ 2,565,079</u>

Note 8 Loans Receivable

Assuming that options to renew will be exercised, loans are repayable in instalments due as follows:

	1997	1996
Arrears of principal and interest	\$ 11,409,348	\$ 11,487,714
Prepaid balances	(19,517,861)	(19,056,780)
Principal due in :		
Year(s) 1	53,442,512	64,115,217
2	56,025,958	62,440,337
3	57,671,829	63,511,134
4	58,682,808	65,365,695
5	56,366,718	66,476,143
Year(s) 6-10	250,866,172	285,431,968
Year(s) over 10	216,022,829	255,953,585
Amounts deferred under the Indexed Deferral Plan	20,579,967	31,584,507
	761,550,280	887,309,520
Add accrued interest	30,818,884	32,932,131
	792,369,164	920,241,651
Less allowance for doubtful accounts (Note 18)	(25,304,861)	(24,013,669)
Less accrued incentives	(4,110,133)	(4,255,452)
Less loan discounts	(9,127,325)	(21,643,937)
	<u>\$ 753,826,845</u>	<u>\$ 870,328,593</u>

Included in the above are non-interest bearing loans which, before discounting, have principal amounts outstanding of:

	1997	1996
Indexed Deferral Plan	\$ 20,579,967	\$ 31,584,507
Canada-Alberta Partnership on Agri-food	13,463,280	15,289,067
Disaster assistance programs	951,566	33,419,785
	<u>\$ 34,994,813</u>	<u>\$ 80,293,359</u>

The allowance for doubtful accounts of \$25,304,861 (1996 \$24,013,669) includes a specific allowance for \$3,918,862 (1996 \$12,927,669) on impaired loans outstanding of \$26,444,101 (1996 \$47,915,972), excluding unamortized loan discount.

	Term to Maturity ⁽¹⁾				Not ⁽²⁾ Interest Rate Sensitive	1997 ⁽⁴⁾
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years		Total
Direct farm loans	\$11,724,875	\$55,125,869	\$165,336,723	\$470,302,337	\$25,403,873	\$727,893,677
Yield ⁽³⁾	8.93%	8.94%	8.90%	8.97%		8.95%
Agribusiness loans	3,899,090	23,137,943	1,398,532	-	(2,502,397)	25,933,168
Yield ⁽³⁾	7.30%	3.82%	7.61%	-		4.49%
Total	<u>\$15,623,965</u>	<u>\$78,263,812</u>	<u>\$166,735,255</u>	<u>\$470,302,337</u>	<u>\$22,901,476</u>	<u>\$753,826,845</u>
Yield ⁽³⁾	8.53%	7.43%	8.89%	8.97%		

⁽¹⁾ Term to maturity reflects the period of time until a loan matures or where an interest rate is to be renegotiated.

⁽²⁾ Includes indexed deferral loans, net impaired loans, general provisions, accrued beginning farmer incentives, accrued interest and unamortized loan discount.

⁽³⁾ Yield represents the rate which discounts future cash receipts to the carrying amount.

⁽⁴⁾ 1996 comparatives could not be determined.

Fair value was not established for the loan portfolio because there is no established market for the developmental loans made by the Corporation. It would be difficult to set a discount rate to determine fair value due to the variation of risk within the portfolio.

Note 9 Investments

	Term to Maturity ⁽¹⁾				1997	1996
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total	Total
Bonds and debentures:						
Government of Canada, direct and guaranteed	\$ 5,092,291	\$ 73,763,663	\$ 8,681,397	\$ 5,887,588	\$ 93,424,939	\$ 86,320,710
Province of Alberta	75,000	-	-	-	75,000	19,396,285
Other provincial direct and guaranteed	23,917,432	2,758,579	-	2,330,232	29,006,243	49,885,948
	<u>29,084,723</u>	<u>76,522,242</u>	<u>8,681,397</u>	<u>8,217,820</u>	<u>122,506,182</u>	<u>155,602,943</u>
Yield ⁽²⁾	3.29%	4.46%	6.23%	7.40%	4.62%	7.95%
Fair value ⁽³⁾	<u>29,070,870</u>	<u>76,192,904</u>	<u>8,558,821</u>	<u>8,250,138</u>	<u>122,072,733</u>	<u>157,593,125</u>
Marketable Securities:						
Government of Canada	53,790,108	-	-	-	53,790,108	-
Yield ⁽²⁾	3.60%				3.60%	
Fair value ⁽³⁾	<u>53,732,531</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,732,531</u>	<u>-</u>
	<u>82,874,831</u>	<u>76,522,242</u>	<u>8,681,397</u>	<u>8,217,820</u>	<u>176,296,290</u>	<u>155,602,943</u>
Accrued interest	1,478,382	1,839,998	155,721	162,499	3,636,600	4,175,132
	<u>\$84,353,213</u>	<u>\$78,362,240</u>	<u>\$8,837,118</u>	<u>\$8,380,319</u>	<u>\$179,932,890</u>	<u>\$159,778,075</u>
Fair value ⁽³⁾					<u>\$175,805,264</u>	<u>\$157,593,125</u>

(1) Term to maturity classifications are based on contractual maturity of the security.

(2) Yield represents the rate which discounts future cash receipts to the carrying amount.

(3) Fair value is based on quoted market prices. Fair value does not include accrued interest.

Marketable securities were not recorded at fair value because amortized cost approximates fair value.

Note 10 Other Assets

Other assets consists of property held for sale and unlisted preferred shares. Property held for sale, consisting mainly of land, has been acquired as a result of foreclosures, quit claims and other actions.

	1997	1996
Cost of property	\$ 2,240,921	\$ 4,132,779
Less allowance for losses on realization (Note 18)	(1,466,952)	(2,754,084)
Estimated net realizable value	<u>773,969</u>	<u>1,378,695</u>
Unlisted preferred shares	-	4,421,666
	<u>\$ 773,969</u>	<u>\$ 5,800,361</u>

The allowance for losses on realization of \$1,466,952 (1996 \$2,754,084) includes a specific allowance of \$816,952 (1996 \$1,693,303) on property balances outstanding of \$1,990,382 (1996 \$4,060,830).

Note 11 Capital Assets

	1997		1996	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 115,000	\$ -	\$ 115,000	\$ 115,000
Building	2,918,757	(470,565)	2,448,192	2,564,942
Computer equipment	4,978,218	(3,950,476)	1,027,742	1,040,096
Equipment and furniture	1,154,529	(682,576)	471,953	491,681
Vehicles	823,056	(481,667)	341,389	291,439
	<u>\$ 9,989,560</u>	<u>\$ (5,585,284)</u>	<u>\$ 4,404,276</u>	<u>\$ 4,503,158</u>

Note 12 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities includes an unfunded pension liability. The Corporation participates with other employers in two defined benefit pension plans. These plans provide pensions for some of the Corporation's employees based on length of service and earnings.

The Corporation had an unfunded pension liability for each plan as at March 31 which was estimated as follows:

	1997	1996
Management Employees Pension Plan	\$ 1,184,338	\$ 827,892
Public Service Pension Plan	761,995	1,089,855
	<u>\$ 1,946,333</u>	<u>\$ 1,917,747</u>

The total unfunded pension liability for each plan as at March 31, 1997 was determined by actuarial valuations, as at December 31, 1995 for the Public Service Plan and as at December 31, 1994 for the Management Employees Plan, both extrapolated to March 31, 1997.

The actuarial valuations were determined using the projected benefit method prorated on service. Assumptions used in the valuations are based on each Pension Board's best estimate of future events. Each Plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses which relate to the long-term are amortized over the expected average remaining service life of the employee group. Gains and losses for which there is reasonable assurance regarding their measurement and realization are recognized in income immediately.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded liability for each plan which will be funded by employers. The Corporation's portion of the liability was based on the Corporation's percentage of the total pensionable payroll of all employers in each Plan.

Note 13 Estimated Indemnities Payable

	1997	1996
Farm Income Disaster Program	\$ 109,703,771	\$ 91,000,000
Wildlife compensation	8,163,750	460,214
Crop insurance	7,448,256	1,642,140
Revenue protection	-	353,983
	<u>\$ 125,315,777</u>	<u>\$ 93,456,337</u>

Estimated indemnities payable consist of known liabilities payable at the year end and estimated additional liabilities for indemnities based on historical information about the relationships between the number of claim applications received and the average amount of each application.

The Corporation implemented the Farm Income Disaster Program for the 1995 crop year. The Program may pay a farm business when it experiences a disastrous drop in margins on farm operations. If the program margin falls below 70% of the average margin for the previous three years, an indemnity may be payable. Applications can be submitted for the 1996 tax year until July 31, 1997 and indemnities will be paid during the 1997-98 fiscal year.

The Corporation has recorded a liability of \$106 million as at March 31, 1997 to provide for estimated indemnities payable under the Program for the 1996 crop year. This \$106 million was funded by a contribution from the Province of Alberta of \$65.1 million during 1996-97, unexpended contributions from the previous year of \$25.6 million, a contribution from the Federal Government, investment income and other customer income. Since this will be only the second year for the program and results from the first year are not yet fully analyzed, predicting indemnities payable accurately is not possible. Actual indemnities to be paid may be significantly more or less than the estimated liability of \$106 million. Indemnities payable under the Program are limited to a maximum of \$200 million per year.

Estimated crop insurance and wildlife damage compensation indemnities payable are significant due to snowed under crops on which claims were outstanding at March 31, 1997. It is difficult to determine indemnity amounts payable because claims were not fully inspected and assessed prior to completion of the financial statements. The actual indemnities payable could be significantly different than the estimated amount if the crop conditions and yields at the time crops are finally harvested varies from assumptions made.

Note 14 Crop Reinsurance Funds

The Crop Reinsurance Fund of Alberta is held by the Province of Alberta. Contributions by the Corporation to this Fund, calculated based on a portion of eligible premiums received, are accumulated as a liability of the Corporation.

The Crop Reinsurance Fund of Canada for Alberta is held by the Government of Canada. Contributions by the Corporation to this Fund, also calculated based on a portion of eligible premiums received, are paid periodically. Amounts due from or to this Fund are included as a receivable or liability of the Corporation.

The balances in these funds, as at March 31, are as follows:

	Crop Reinsurance Fund of Alberta		Crop Reinsurance Fund of Canada for Alberta	
	1997	1996	1997	1996
Opening surplus	\$ 28,927,288	\$ 12,915,002	\$ 41,381,803	\$ 25,369,516
Current year contributions	16,245,129	16,012,286	16,245,129	16,012,287
Closing surplus	<u>\$ 45,172,417</u>	<u>\$ 28,927,288</u>	<u>\$ 57,626,932</u>	<u>\$ 41,381,803</u>

Note 15 Contingencies and Commitments

	1997	1996
Loan guarantees	\$ 70,395,430	\$ 65,017,828
Less allowance for losses (Note 18)	(6,805,000)	(4,998,000)
Total contingencies	<u>\$ 63,590,430</u>	<u>\$ 60,019,828</u>
Estimated farm loan incentives	\$ 24,441,854	\$ 25,921,355
Approved, undisbursed loans	16,740,388	19,438,563
Total commitments	<u>\$ 41,182,242</u>	<u>\$ 45,359,918</u>

Contingencies under the Alberta farm development loans program comprise \$57,931,572 of the loan guarantees. Loans made by other financial institutions outstanding under this program at March 31, 1997 were \$211,141,403 (1996 \$230,903,139).

Note 16 Long-term Debt

Debentures payable and notes payable to the Province of Alberta are comprised of the following:

Series	Year of Maturity	Weighted Average Interest Rate	March 31 Principal Outstanding	
			1997	1996
Debenture A	2004	9.94%	\$ 65,100,000	\$ 73,100,000
Debenture B	2004 - 2005	9.13%	18,000,000	20,000,000
Debenture C	2005	8.53%	40,000,000	44,000,000
Debenture D	2006	8.23%	68,000,000	73,900,000
Debenture E	2006 - 2007	7.41%	72,600,000	120,720,000
Debenture F	2007 - 2009	8.49%	168,450,000	179,450,000
Debenture G	2009 - 2010	9.56%	64,990,000	68,870,000
Debenture H	2010 - 2011	8.50%	77,390,000	81,750,000
Debenture I	2012 - 2013	8.72%	31,980,000	33,210,000
Debenture J	2009	7.93%	37,443,324	39,259,354
Debenture K	2011	8.16%	34,692,945	35,984,951
Debenture L	2001-2002	7.39%	57,004,402	66,913,502
Note payable 001	2011	7.56%	24,419,251	-
			<u>760,069,922</u>	<u>837,157,807</u>
Accrued interest			9,563,904	11,772,697
			<u>\$ 769,633,826</u>	<u>\$ 848,930,504</u>

Principal repayments due in each of the next five years are as follows:

Year ending March 31,	1998	\$ 62,978,761
	1999	\$ 65,772,476
	2000	\$ 69,977,258
	2001	\$ 72,940,121
	2002	\$ 69,688,473

	Term to Maturity ⁽¹⁾				1997	1996
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total	Total
Debentures & notes payable						
Province of Alberta	\$102,780,000	\$567,770,671	\$65,100,000	\$24,419,251	\$760,069,922	\$837,157,807
Yield ⁽²⁾	8.92%	8.33%	9.94%	7.56%	8.53%	9.05%
Accrued Interest					<u>9,563,904</u>	<u>11,772,697</u>
					<u>\$769,633,826</u>	<u>\$848,930,504</u>
Approximate fair value ⁽³⁾ at March 31					<u>\$828,317,427</u>	<u>\$899,825,335</u>

⁽¹⁾ Term to maturity reflects the period of time until an interest rate renegotiation date or the maturity date of the long-term debt. The interest rates are fixed for either a five year period or until maturity. Repayment is either by semi-annual or annual instalments of principal. The Provincial Treasurer may permit all or part of debentures to be redeemed by the issuer prior to maturity without penalty and the Corporation will redeem debentures when cash flow is adequate and the Provincial Treasurer authorizes redemption.

⁽²⁾ Yield represents the rate which discounts the stream of future payments from the reporting date to the next interest rate renegotiation date.

- (3) Fair values for debentures and notes are based on the net present value of future cash flows. Each individual cash flow payment is discounted at a rate which matches the term of the cash flow payment and is adjusted for a yield premium to reflect several factors. These include a liquidity premium to reflect the fact that if the debentures and notes are sold, there will be a limited pool of these securities trading in the market; and that the debentures and notes would be new to the market and are not direct issues of the Province; a premium for periodic interest reset feature where applicable, and a factor to reflect the blended payment structure of the debentures and notes.

Note 17 Interest Revenue

The Corporation does not recognize interest revenue on loans receivable where collection of the interest is in doubt. The amount of unrecognized interest revenue for 1996 was \$2,917,907. In 1997, certain loans which had been considered as impaired in previous years were no longer considered impaired. Therefore, unrecognized interest from previous years on these loans was recognized in 1997, resulting in a net recovery of interest of \$798,668 for the year.

Note 18 Allowances for Doubtful Accounts and for Losses

	Accounts Receivable (Note 5)	Loans Receivable (Note 8)	Other Assets (Note 10)	Loan Guarantees (Note 15)	Total
Allowances at					
March 31, 1995	\$905,972	\$ 34,845,417	\$ 2,648,187	\$ 5,342,000	\$ 43,741,576
Transfers to other					
assets in 1995-96	-	(779,689)	779,689	-	-
Provision for 1995-96	(148,168)	(9,325,835)	(358,935)	(344,000)	(10,176,938)
Write-offs in 1995-96	(379,347)	(726,224)	(314,857)	-	(1,420,428)
Allowances at					
March 31, 1996	378,457	24,013,669	2,754,084	4,998,000	32,144,210
Transfers to other					
assets in 1996-97	-	(329,883)	329,883	-	-
Provision for 1996-97	369,589	2,362,621	(797,991)	1,807,000	3,741,219
Write-offs in 1996-97	(550,287)	(741,546)	(819,024)	-	(2,110,857)
Allowances at					
March 31, 1997	<u>\$ 197,759</u>	<u>\$ 25,304,861</u>	<u>\$ 1,466,952</u>	<u>\$ 6,805,000</u>	<u>\$ 33,774,572</u>

Note 19 Comparative Figures

The 1996 figures have been reclassified where necessary to conform to 1997 presentation.

AGRICULTURE FINANCIAL SERVICES CORPORATION
SCHEDULE OF REVENUE, EXPENSE AND SURPLUS
FOR THE YEAR ENDED MARCH 31, 1997

	1997					
	Crop Insurance	Beginning Farmer Lending	Farm Income Disaster	Hail Insurance	Agribusiness Lending	Other Lending
Revenue:						
Premiums from insured persons	\$ 59,661,020	\$ -	\$ -	\$28,011,025	\$ -	\$ -
Interest (Note 17)	521,882	63,611,570	-	218,067	1,897,023	6,621,547
Contribution from Province of Alberta	39,057,978	19,577,610	68,742,589	-	3,703,170	2,098,220
Contribution from Government of Canada (Note 7)	33,659,597	-	10,928,000	-	(1,153,368)	-
Investment income	6,616,172	945,509	3,243,357	4,130,528	46,885	123,910
Fees and other income	60,694	451,882	1,244,137	403,147	350,675	459,912
Amortization of loan discounts	-	8,018,810	-	-	1,208,830	3,288,972
	<u>139,577,343</u>	<u>92,605,381</u>	<u>84,158,083</u>	<u>32,762,767</u>	<u>6,053,215</u>	<u>12,592,561</u>
Expense:						
Indemnities	50,958,664	-	80,548,296	18,765,645	-	-
Interest	-	65,141,484	-	-	1,065,111	7,416,942
Reinsurance	32,490,257	-	-	596,700	-	-
Disaster assistance interest benefit	-	-	-	-	-	-
Farm loan incentives	-	7,885,643	-	-	-	28,588
Administration, Schedule 2	13,146,279	7,825,524	3,646,793	4,673,760	1,468,008	1,214,758
Provision for doubtful accounts and for losses (Note 18)	115,524	951,973	-	25,976	2,311,266	108,391
	<u>96,710,724</u>	<u>81,804,624</u>	<u>84,195,089</u>	<u>24,062,081</u>	<u>4,844,385</u>	<u>8,768,679</u>
Excess (deficiency) of revenue over expense before recoveries	<u>42,866,619</u>	<u>10,800,757</u>	<u>(37,006)</u>	<u>8,700,686</u>	<u>1,208,830</u>	<u>3,823,882</u>
Recoverable by Government of Canada	-	-	-	-	-	-
Recoverable by Province of Alberta	-	-	-	-	-	-
Recoverable by producers	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Surplus (deficit) for the year	<u>42,866,619</u>	<u>10,800,757</u>	<u>(37,006)</u>	<u>8,700,686</u>	<u>1,208,830</u>	<u>3,823,882</u>
Surplus (deficit) at beginning of year	<u>78,494,756</u>	<u>(19,826,055)</u>	<u>(7,585)</u>	<u>36,171,990</u>	<u>(3,383,561)</u>	<u>(5,205,720)</u>
Surplus (deficit) at end of year	<u>\$121,361,375</u>	<u>\$ (9,025,298)</u>	<u>\$ (44,591)</u>	<u>\$44,872,676</u>	<u>\$ (2,174,731)</u>	<u>\$ (1,381,838)</u>

			1996
Wildlife Compensation	Revenue Protection	Total	Total
\$ -	\$ (11,387)	\$ 87,660,658	\$ 79,375,023
-	50,801	72,920,890	70,826,347
9,788,509	148,924	143,117,000	184,373,263
3,383,858	140,492	46,958,579	39,126,072
29,322	4,726,597	19,862,280	14,700,940
38,306	129,141	3,137,894	1,660,467
-	-	12,516,612	8,800,600
13,239,995	5,184,568	386,173,913	398,862,712
12,743,192	(15,773)	163,000,024	164,774,945
38,369	-	73,661,906	84,645,128
-	-	33,086,957	32,024,573
-	-	-	16,320,780
-	-	7,914,231	8,057,436
465,642	336,577	32,777,341	31,129,147
-	228,089	3,741,219	(10,176,938)
13,247,203	548,893	314,181,678	326,775,071
(7,208)	4,635,675	71,992,235	72,087,641
-	(1,937,284)	(1,937,284)	(7,596,928)
-	(1,526,579)	(1,526,579)	(4,557,792)
-	(1,185,248)	(1,185,248)	(6,076,449)
-	(4,649,111)	(4,649,111)	(18,231,169)
(7,208)	(13,436)	67,343,124	53,856,472
59	647,659	86,891,543	33,035,071
\$ (7,149)	\$ 634,223	\$ 154,234,667	\$ 86,891,543

AGRICULTURE FINANCIAL SERVICES CORPORATION
SCHEDULE OF ADMINISTRATION EXPENSE
FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
Salaries and benefits	\$ 14,676,954	\$ 14,733,026
Contracted services	3,433,018	3,561,453
Hail agents' commissions	2,862,763	1,927,428
Adjusters' wages and benefits	2,693,711	2,841,764
Travel and automobile	2,280,078	2,254,756
Office accommodation costs	1,166,245	1,211,415
Amortization of capital assets	962,070	917,969
Data processing	918,338	769,190
Telecommunications	823,399	190,703
Stationery supplies	803,420	750,973
Equipment, rental and maintenance	544,576	407,074
Advertising	457,481	223,352
Professional services	350,714	285,820
Training, meetings, seminars, conferences	237,944	291,644
Postage and freight	192,796	328,892
Directors' fees and expenses	131,331	149,277
Collection commissions	102,199	132,644
Grain grading	67,157	80,623
Bonding and insurance	55,730	54,062
Bank charges	17,417	17,082
	<u>\$ 32,777,341</u>	<u>\$ 31,129,147</u>

AGRICULTURE FINANCIAL SERVICES CORPORATION
SCHEDULE OF SALARIES AND BENEFITS
FOR THE YEAR ENDED MARCH 31, 1997

	1997				1996	
	Number of Individuals	Salary and Wages ⁽¹⁾	Benefits and Allowances ⁽²⁾	Total	Number of Individuals	Total
Chair	1	\$ 25,297	\$ -	\$ 25,297	1	\$ 28,905
Board members	7	63,116	784	63,900	8	72,586
Directors' fees ⁽³⁾	8	<u>\$ 88,413</u>	<u>\$ 784</u>	<u>\$ 89,197</u>	9	<u>\$ 101,491</u>
President and Managing Director	1	\$ 98,100	\$ 15,163	\$ 113,263	1	\$ 142,501
Vice President, Field Operations	1	79,245	20,197	99,442	1	89,363
Vice President, Finance and Administration	1	88,411	24,451	112,862	1	102,894
Vice President, Research, Information and Program Development	1	78,258	13,914	92,172	1	82,506
Vice-President, Insurance Operations	1	37,160	52,861	90,021 ⁽⁴⁾	1	87,737
Other management employees						
(average 1997 \$73,863, 1996 \$72,734)	22 ⁽⁵⁾	1,320,138	304,857	1,624,995	21 ⁽⁵⁾	1,527,408
Other salaried staff (average 1997 \$43,859, 1996 \$42,615)	246 ⁽⁵⁾	9,550,437	1,238,915	10,789,352	250 ⁽⁵⁾	10,653,696
Non-salaried staff		<u>1,242,070</u>	<u>207,738</u>	<u>1,449,808</u>		<u>1,100,553</u>
Subtotal		<u>12,493,819</u>	<u>1,878,096</u>	<u>14,371,915</u>		<u>13,786,658</u>
Retiring allowances			71,015	71,015		154,546
Unfunded pension costs			28,586	28,586		71,747
Relocation costs			81,710	81,710		299,260
Productivity Plus awards			-	-		305,000
Vacation pay accruals			123,728	123,728		115,815
Salaries and benefits		<u>\$12,493,819</u>	<u>\$ 2,183,135</u>	<u>\$14,676,954</u>		<u>\$14,733,026</u>
Adjusters' wages and benefits		<u>\$ 2,312,436</u>	<u>\$ 381,275</u>	<u>\$ 2,693,711</u>		<u>\$ 2,841,764</u>

- (1) Salary and wages include fees for Chair and Board members and regular base pay and overtime for employees.
- (2) Benefits and allowances include employer's share of all employee benefits, including health care, flexible health, dental and vision care allowance, group life insurance, pensions, employment insurance, accidental death/dismemberment and long-term disability insurance, workers' compensation, professional memberships and vacation payouts. No amount is included in benefits and allowances for an automobile provided to the President and Managing Director.
- (3) Directors' fees of \$89,197 (1996 \$101,491) shown above plus expenses of \$42,134 (1996 \$47,786) for a total of \$131,331 (1996 \$149,277) are shown in Schedule 2 as Directors fees and expenses.
- (4) The salary and benefits are for the period April 1, 1996 to August 31, 1996. Benefits and allowances include a \$43,500 retiring allowance.
- (5) Number of individuals is stated in terms of full-time equivalents.

ALBERTA AGRICULTURAL RESEARCH INSTITUTE
FINANCIAL STATEMENTS
MARCH 31, 1997

Auditor's Report
Balance Sheet
Statement of Revenue, Expense and Net Assets
Statement of Changes in Financial Position
Notes to the Financial Statements
Schedule of Research Grants and Administered Awards

AUDITOR'S REPORT

To the Members of the Board of the
Alberta Agricultural Research Institute

I have audited the balance sheet of the Alberta Agricultural Research Institute as at March 31, 1997 and the statements of revenue, expense and net assets and changes in financial position for the year then ended. These financial statements are the responsibility of the Institute's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Institute as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
May 30, 1997

ALBERTA AGRICULTURAL RESEARCH INSTITUTE
BALANCE SHEET
AS AT MARCH 31, 1997

	1997		1996
	Budget	Actual	Actual
	(Note 11)		
ASSETS			
Cash	\$ 2,726,787	\$ 3,480,277	\$ 3,602,375
Restricted cash	299,373	779,292	654,558
Due from the Government of Canada	-	553,746	90,000
Due from Sponsors	-	90,636	83,230
Due from the Province of Alberta	1,000	3,650	21,013
	<u>\$ 3,027,160</u>	<u>\$ 4,907,601</u>	<u>\$ 4,451,176</u>
LIABILITIES AND NET ASSETS			
Accounts payable (Note 3)	\$ 347,422	\$ 327,171	\$ 255,198
Research grants and administered awards payable	1,508,207	2,102,466	2,329,728
Deferred contributions (Note 4)	299,373	779,292	654,558
	<u>2,155,002</u>	<u>3,208,929</u>	<u>3,239,484</u>
Net assets	872,158	1,698,672	1,211,692
	<u>\$ 3,027,160</u>	<u>\$ 4,907,601</u>	<u>\$ 4,451,176</u>

The accompanying notes and schedule
are part of these financial statements.

ALBERTA AGRICULTURAL RESEARCH INSTITUTE
STATEMENT OF REVENUE, EXPENSE AND NET ASSETS
FOR THE YEAR ENDED MARCH 31, 1997

	1997		1996
	Budget (Note 11)	Actual	Actual
Revenue:			
Province of Alberta	\$ 8,138,000	\$ 8,276,882	\$ 6,407,009
Agriculture and Agri-food Canada:			
Beef Industry Development Fund	1,462,000	1,094,282	723,568
Contributions to projects	250,000	363,714	269,472
Contributions from sponsors	200,000	789,067	516,833
Interest	175,000	203,840	280,011
Canada/Alberta Environmentally Sustainable			
Agriculture research program	73,854	90,945	73,854
Administration fees on contracted research	62,000	71,041	54,067
Development programs	60,000	-	-
	<u>10,420,854</u>	<u>10,889,771</u>	<u>8,324,814</u>
Expense:			
Research grants and administered awards, Schedule 1	5,199,534	4,538,887	5,709,201
Agriculture Research Program, Vegreville (Note 5)	2,300,000	2,300,000	-
Beef Industry Development Fund (Note 4)	1,462,000	1,094,282	723,568
Sponsored research (Note 6)	200,000	789,067	516,833
Demonstration grants	600,000	545,588	563,469
Administration (Note 7)	400,000	368,694	352,873
Agriculture and Agri-food Canada - projects	250,000	363,714	269,472
Agriculture, Food and Rural Development - projects	150,000	288,882	157,009
Canada/Alberta Environmentally Sustainable			
Agriculture research program	73,854	90,945	73,854
Information transfer (Note 8)	40,000	37,030	39,932
Change in unfunded pension liability	25,000	(27,027)	7,000
Development programs	60,000	10,308	-
Northern Study	-	2,421	47,579
	<u>10,760,388</u>	<u>10,402,791</u>	<u>8,460,790</u>
Excess (deficiency) of revenue over expense	(339,534)	486,980	(135,976)
Net assets at beginning of year	1,211,692	1,211,692	1,347,668
Net assets at end of year	<u>\$ 872,158</u>	<u>\$ 1,698,672</u>	<u>\$ 1,211,692</u>

**ALBERTA AGRICULTURAL RESEARCH INSTITUTE
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997**

	1997	1996
Operating activities:		
Excess (deficiency) of revenue over expense	\$ 486,980	\$ (135,976)
Add non-cash charge		
Change in unfunded pension liability	(27,027)	7,000
	<u>459,953</u>	<u>(128,976)</u>
Net changes in non-cash working capital:		
Due from the Government of Canada	(463,746)	(90,000)
Due from Sponsors	(7,406)	(63,210)
Due from the Province of Alberta	17,363	219,036
Accounts payable	99,000	(249,034)
Research grants and administered awards payable	(227,262)	596,388
Deferred contributions	124,734	424,870
Net cash generated from operating activities being net increase in cash	<u>2,636</u>	<u>709,074</u>
Cash at beginning of year	4,256,933	3,547,859
Cash at end of year	<u><u>\$ 4,259,569</u></u>	<u><u>\$ 4,256,933</u></u>
 Cash	 \$ 3,480,277	 \$ 3,602,375
Restricted cash	779,292	654,558
	<u><u>\$ 4,259,569</u></u>	<u><u>\$ 4,256,933</u></u>

**ALBERTA AGRICULTURAL RESEARCH INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997**

Note 1 Authority and Purpose

The Alberta Agricultural Research Institute (the "Institute"), operates as a Provincial corporation under the authority of the Alberta Agricultural Research Institute Act, Chapter A-13.7, 1987, Statutes of Alberta 1987, as amended.

The purpose of the Institute is to promote, coordinate, prioritize and support agricultural research ensuring transfer of the resulting knowledge for the benefit of a viable and sustainable agri-food industry.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Revenue Recognition

Contributions from the Province of Alberta are subject to the approval of annual appropriations and are recorded in the year for which they are approved. The Institute may be required to refund unexpended portions of contributions held at the end of a fiscal year.

Contributions from sponsors represent donations to the Institute for specific research projects and do not include donations in-kind.

Externally restricted contributions are recorded as deferred contributions until the related expenses are incurred, at which time they are recognized as revenue.

Unrestricted contributions are recognized as revenue when they are received.

(b) Research Grants and Administered Awards

Research grants and administered awards are recorded as expense when approved for payment by the Board of Directors and all terms and conditions of eligibility for payment of the award have been met.

(c) Restricted Cash

Restricted cash represents unspent contributions that are subject to externally imposed restrictions related to specific research projects or programs.

(d) Pension

Liability

Accounts payable includes the portion of unfunded pension liability for the Public Service Pension Plan incurred on behalf of the Institute's employees.

Expense

Pension costs comprise: the cost of pension benefits earned by employees during the year; interest on the Institute's share of the unfunded pension liability; the amortization of deferred adjustments over the expected average remaining service life of employees which relate to the long term; adjustments to the pension obligation recognized immediately if there is reasonable assurance that a gain or loss has been realized; and the effect of the change in the ratio used to allocate the Plan's total unfunded liability to participating entities.

Pension costs which are funded are included in administration expense and those which have not been funded are recorded on the statement of revenue, expense and net assets as a valuation adjustment to the pension obligation.

(e) Fair Value of Financial Instruments

Short-term financial instruments are valued at their carrying amounts included on the Balance Sheet, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. In these financial statements, this approach applies to cash, Due from the Government of Canada, Due from Sponsors and Due from the Province of Alberta, accounts payable and research grants and administered awards payable and deferred contributions.

Note 3 Accounts Payable

Accounts payable includes an unfunded pension liability. The Institute participates with other employers in the Public Service Pension Plan. This Plan provides pensions for the Institute's employees based on years of service and earnings.

The Institute has an unfunded pension liability as at March 31, 1997, which was estimated at \$30,973 (1996 \$58,000).

The total unfunded pension liability for the Plan as at March 31, 1997 was determined by an actuarial valuation as at December 31, 1995, extrapolated to March 31, 1997.

The actuarial valuation was determined using the projected benefit method prorated on service. Assumptions used in the valuations are based on the Pension Board's best estimate of future events. The Plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses which relate to the long term are amortized over the expected average remaining service life of the employee group. Gains and losses for which there is reasonable assurance regarding their measurement and realization are recognized in income immediately.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded liability which will be funded by employers. The Institute's portion of those employers' liabilities was based on the Institute's percentage of the total pensionable payroll of all employers in the Plan.

Note 4 Deferred Contributions

Deferred contributions represent contributions received relating to future years and unspent funds received for restricted purposes.

The deferred contributions balance is comprised of the following:

	1997	1996
Industry sponsored projects	\$ 273,742	\$ 197,756
Development programs	167,563	65,035
Sponsors matching grants projects	137,811	108,269
Government sponsored projects	101,755	219,111
Variety testing program	68,344	53,024
Beef Industry Development Fund	4,622	2,576
Other	25,455	8,787
	<u>\$ 779,292</u>	<u>\$ 654,558</u>

In 1996, the Institute began managing the research component of the Beef Industry Development Fund. The difference between the amount received from the Fund and the amount expended by the Institute is included in deferred contributions.

Note 5 Agriculture Research Program, Vegreville

On July 10, 1996 responsibility for the Agriculture Research Program at the Alberta Environmental Centre (the Centre) in Vegreville was transferred to the Minister of Agriculture, Food and Rural Development. The Institute manages this program on behalf of the Minister.

Under the terms of a Memorandum of Understanding between the Institute and the Alberta Research Council (the Council), the Institute paid the Council \$1,200,055 for contracted agricultural research conducted at the Centre after September 30, 1996. Agriculture Research Program costs of \$1,099,945 incurred by the Department of Environmental Protection from April 1, 1996 to September 30, 1996 were also transferred to the Institute.

Note 6 Sponsored Research Expense

Certain research projects are carried out in co-operation with Department of Agriculture, Food and Rural Development researchers, and are funded by industry and other Provincial government sponsors.

Note 7 Administration Expense

	1997				1996	
	Number of Individuals	Salary ⁽¹⁾	Benefits and Allowances ⁽²⁾	Total	Number of Individuals	Total
Chairman of the Board	1	\$ 12,952	\$ 117	\$ 13,069	1	\$ 15,270
Board members ⁽³⁾	18	13,572	-	13,572	18	14,778
Salaried staff ⁽⁴⁾ (average 1997 \$35,092, 1996 \$35,423)	7 ⁽⁵⁾	208,446	37,197	245,643	7 ⁽⁵⁾	247,962
Total salaries and benefits		<u>\$ 234,970</u>	<u>\$ 37,314</u>	272,284		278,010
Other administration costs				96,410		74,863
Total administration expense				<u>\$ 368,694</u>		<u>\$352,873</u>
Research project staff ⁽⁶⁾ (average 1997 \$30,138, 1996 \$28,780)	42 ⁽⁵⁾	<u>\$1,164,244</u>	<u>\$ 113,629</u>	<u>\$ 1,277,873</u>	31 ⁽⁵⁾	<u>\$892,205</u>

⁽¹⁾ Salary includes regular base pay, overtime, lump sum payments, honoraria and any other direct cash remuneration.

⁽²⁾ Benefits and allowances includes the Institute's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, out of country medical benefits, group life insurance, long and short-term disability plans, professional memberships and tuition.

⁽³⁾ Includes remuneration for all meetings (Board, research committees, strategic committees and other).

⁽⁴⁾ Includes administrative staff only. No management staff are employed by the Institute. Management is provided by the Department of Agriculture, Food and Rural Development.

⁽⁵⁾ Number of individuals is stated in terms of full-time equivalents.

⁽⁶⁾ The cost of research project staff is recorded as part of research grants and administered awards expense.

Note 8 Information Transfer Expense

Information transfer expense includes costs directly related to the transfer of technology and dissemination of the information arising from Institute activities.

Note 9 Commitments

As at March 31, 1997 the Institute had committed approximately \$5,575,000 for awards for research programs of which \$5,405,000 is to be paid out of 1997-98 funding and \$170,000 is to be paid out of existing net assets.

Note 10 Related Party Transactions

Certain salaries and other overhead costs, research and development costs related to the development programs, as well as accommodation costs incurred in the administration of the Institute, estimated at \$163,000 (1996 \$179,000), are borne by the General Revenue Fund. These amounts are not reflected in these financial statements.

Note 11 Budget

The 1997 budget, excluding \$2,300,000 in revenue and expense for the Agriculture Research Program, Vegreville, was approved by the Board of Directors on April 25, 1996.

On July 10, 1996 the Lieutenant Governor in Council, by Order in Council 304/96, approved the transfer of the 1996-97 appropriation for the Agriculture Research Program, Vegreville, from the Department of Environmental Protection to the Minister of Agriculture, Food and Rural Development. The Institute manages this program on behalf of the Minister.

The increase of \$2,300,000 in budgeted revenue and expense was approved by the Institute's Board of Directors on August 1, 1996.

Note 12 Comparative Figures

Certain 1996 figures have been reclassified to conform to 1997 presentation.

Note 13 Approval of Financial Statements

These financial statements were approved by management and the Audit Committee.

ALBERTA AGRICULTURAL RESEARCH INSTITUTE
SCHEDULE OF RESEARCH GRANTS AND ADMINISTERED AWARDS
FOR THE YEAR ENDED MARCH 31, 1997

	<u>1997</u>	<u>1996</u>
Farming for the Future Program:		
Matching grants	\$ 2,692,142	\$ 2,999,893
Direct funding	1,659,964	2,156,185
Professorship Program	160,000	320,000
Research Coordination Program	21,659	19,692
National Agricultural Biotechnology Initiative	5,122	196,300
Scientific conference	-	17,131
	<u>\$ 4,538,887</u>	<u>\$ 5,709,201</u>

ALBERTA DAIRY CONTROL BOARD
FINANCIAL STATEMENTS
MARCH 31, 1997

Auditor's Report
Statement of Financial Position
Statement of Operations
Statement of Changes in Net Assets
Statement of Changes in Financial Position
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Schedule of Trust Transactions

AUDITOR'S REPORT

To the Members of the
Alberta Dairy Control Board

I have audited the statement of financial position of the Alberta Dairy Control Board as at March 31, 1997 and the statements of operations, changes in net assets and changes in financial position for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
May 30, 1997

ALBERTA DAIRY CONTROL BOARD
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 1997

	1997		1996
	Budget (Note 14)	Actual	Actual
ASSETS			
Current:			
Cash	\$ 1,085,537	\$ 1,237,826	\$ 1,242,527
Due from processors, producers and others (Note 3)	400,000	225,258	411,260
Prepaid expenses	-	685	-
	<u>1,485,537</u>	<u>1,463,769</u>	<u>1,653,787</u>
Capital assets (Note 4)	43,636	77,022	50,635
	<u>1,529,173</u>	<u>1,540,791</u>	<u>1,704,422</u>
Trust assets (Note 5)	2,900,000	8,556,579	2,940,367
	<u>\$ 4,429,173</u>	<u>\$ 10,097,370</u>	<u>\$ 4,644,789</u>
LIABILITIES AND NET ASSETS			
Current:			
Due to producers	\$ 400,000	\$ 120,000	\$ 330,620
Accounts payable	-	235,126	92,523
Current portion of obligation under capital leases (Note 6)	-	3,571	3,207
	<u>400,000</u>	<u>358,697</u>	<u>426,350</u>
Obligation under capital leases (Note 6)	9,123	5,552	9,123
Pension liability (Note 7)	147,000	122,583	143,899
	<u>556,123</u>	<u>486,832</u>	<u>579,372</u>
Net assets	973,050	1,053,959	1,125,050
	<u>1,529,173</u>	<u>1,540,791</u>	<u>1,704,422</u>
Trust liabilities, Schedule 1	2,900,000	8,556,579	2,940,367
	<u>\$ 4,429,173</u>	<u>\$ 10,097,370</u>	<u>\$ 4,644,789</u>

The accompanying notes and schedule
are part of these financial statements.

ALBERTA DAIRY CONTROL BOARD
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1997

	1997		1996
	Budget (Note 14)	Actual	Actual
REVENUE			
Producer assessments	\$ 418,000	\$ 437,480	\$ 424,355
Processor assessments	209,000	218,187	211,652
Feta cheese assessment (Note 8)	241,000	253,486	-
Government contribution to administration costs (Note 9)	139,000	139,000	162,000
Other income	-	2,430	-
	<u>1,007,000</u>	<u>1,050,583</u>	<u>798,007</u>
EXPENSE			
Salaries and benefits (Note 10)	545,000	502,977	477,287
Feta cheese assistance (Note 8)	241,000	253,486	-
Travel and conference fees	101,000	108,320	100,343
Investigation (Note 11)	90,000	102,705	25,558
General office	48,000	56,270	50,394
Grants	37,000	33,966	37,742
Data processing	65,000	35,313	22,775
Amortization of capital assets	32,000	28,576	48,470
Net quota exchange transfers (Note 12)	-	61	(111)
Bad debts	-	-	3,375
	<u>1,159,000</u>	<u>1,121,674</u>	<u>765,833</u>
Excess (deficiency) of revenue over expense for the year	<u>\$ (152,000)</u>	<u>\$ (71,091)</u>	<u>\$ 32,174</u>

ALBERTA DAIRY CONTROL BOARD
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 1997

	1997			1996
	Invested in Capital Assets	Restricted for Quota Exchange (Note 12)	Unrestricted	Total
Balance at beginning of year	\$ 50,635	\$ 11,804	\$ 1,062,611	\$ 1,125,050
Excess (deficiency) of revenue over expense for the year	-	-	(71,091)	(71,091)
Purchase of capital assets	54,963	-	(54,963)	-
Amortization of capital assets	(28,576)	-	28,576	-
Net quota exchange transfers	-	(61)	61	-
Balance at end of year	<u>\$ 77,022</u>	<u>\$ 11,743</u>	<u>\$ 965,194</u>	<u>\$ 1,053,959</u>
				<u>\$ 1,125,050</u>

ALBERTA DAIRY CONTROL BOARD
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997

	1997		1996
	Budget	Actual	Actual
	(Note 14)		
Operating activities:			
Excess (deficiency) of revenue over expense for the year	\$ (152,000)	\$ (71,091)	\$ 32,174
Add (deduct) non-cash charges:			
Amortization of capital assets	32,000	28,576	48,470
Increase (decrease) in pension liability	3,100	(21,316)	5,865
	(116,900)	(63,831)	86,509
Net change in non-cash operating working capital items (Note 13)	(15,090)	117,300	(168,057)
Net cash provided by (applied to) operating activities	(131,990)	53,469	(81,548)
Investing activities:			
Purchase of capital assets	(25,000)	(54,963)	(21,613)
Net cash applied to investing activities	(25,000)	(54,963)	(21,613)
Financing activities:			
Decrease in obligation under capital leases	-	(3,207)	(3,041)
Net cash applied to financing activities	-	(3,207)	(3,041)
Net decrease in cash	(156,990)	(4,701)	(106,202)
Cash at beginning of year	1,242,527	1,242,527	1,348,729
Cash at end of year	\$ 1,085,537	\$ 1,237,826	\$ 1,242,527

ALBERTA DAIRY CONTROL BOARD
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997

Note 1 Authority and Purpose

The Alberta Dairy Control Board (the "Board") operates under the authority of the Dairy Board Act, Chapter D-1, Revised Statutes of Alberta 1980, as amended.

The Board was established to control and regulate the sale of milk in Alberta. Its responsibilities cover all three sectors of the dairy industry including fluid milk, industrial milk and cream.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Cash

Cash consists of deposits in the Consolidated Cash Investment Trust Fund of the Province of Alberta. The Fund is invested primarily in securities maturing in less than one year which are either issued or guaranteed by the Canadian federal and provincial governments, deposits given by or guaranteed by chartered banks, or short-term investment-grade-quality notes of Canadian corporations. Interest is earned on the daily cash balance at the average rate or earnings of the Fund which varies depending on prevailing market interest rates.

(b) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Leases transferring substantially all of the benefits and risks of ownership of property are accounted for as acquisitions of capital assets financed by long-term obligations.

Capital assets, other than equipment under capital leases, are amortized on a straight-line basis over the estimated useful lives of the assets as follows:

Software development	5 years
Computer hardware and equipment	3 and 5 years

Equipment acquired under a capital lease is amortized on a straight-line basis over the term of the lease.

(c) Pension

Liability

Pension liability includes the portion of unfunded pension liability for the Public Service Pension Plan and the Management Employees' Pension Plan incurred on behalf of the Board's employees.

Costs

Pension costs comprise: the cost of pension benefits earned by employees during the year; interest on the Board's share of the unfunded pension liability; the amortization of deferred adjustments over the expected average remaining service life of employees which relate to the long term; adjustments to the pension liability recognized immediately if there is reasonable assurance that a gain or loss has been realized; and the effect of the change in the ratio used to allocate the plan's total unfunded liability to participating entities. The net expense or recovery is included as part of salary and benefits.

Note 3 Due from Processors, Producers and Others

	1997	1996
Quota exchange	\$ 118,560	\$ 337,252
Assessments	105,757	55,502
Others	941	18,506
	<u>\$ 225,258</u>	<u>\$ 411,260</u>

Note 4 Capital Assets

	1997		1996
	Cost	Accumulated Amortization	Net
Software development	\$ 169,244	\$ 146,719	\$ 22,525
Computer hardware and equipment	85,449	39,224	46,225
Equipment under capital leases	18,594	10,322	8,272
	<u>\$ 273,287</u>	<u>\$ 196,265</u>	<u>\$ 77,022</u>
			<u>\$ 50,635</u>

Note 5 Trust Assets (see Schedule 1)

Trust assets comprise:

	1997	1996
Cash	\$ 5,033,265	\$ 379,266
Due from processors and producers, Schedule 1	3,523,314	2,561,101
	<u>\$ 8,556,579</u>	<u>\$ 2,940,367</u>

Under the National Milk Marketing Plan, the Board collects levies from processors on behalf of producers and forwards the levies to the Canadian Dairy Commission (the CDC), a portion of which may be refunded to producers under certain conditions. During 1996-97, \$1,435,760 (1995-96 \$2,745,066) was received from CDC and \$1,642,491 (1995-96 \$2,730,146) was refunded to producers. The Board also received a special class surplus refund of \$4,004,235 from CDC, of which \$4,003,470 was refunded to producers. These amounts are included in Amounts received and Amounts paid out, respectively, on Schedule 1.

The Board has an agreement to collect levies for milk promotion, universal assessment, and education on behalf of the Alberta Milk Producers' Society and the Dairy Nutrition Council of Alberta.

Under section 24 of the Dairy Board Regulation, the Board is required to operate a price equalization mechanism whereby all producers receive a fair price for their milk production.

Note 6 Obligation Under Capital Leases

The obligation under capital leases consists of the following:

	1997	1996
1997	\$ -	\$ 4,419
1998	4,419	4,419
1999	4,419	4,419
2000	1,680	1,680
Total minimum lease payments	10,518	14,937
Less amount representing interest	1,395	2,607
Present value of net minimum lease payments	9,123	12,330
Less current portion	3,571	3,207
Long-term portion	<u>\$ 5,552</u>	<u>\$ 9,123</u>

The capital leases expire on March 31, 1999 and May 31, 2000. The implicit interest rates payable on these leases are 11.0% and 10.5%.

Note 7 Pension Liability

The Board participates with other employers in the Public Service and Management Employees' pension plans. These plans provide pensions for the Board's employees based on years of service and earnings.

The Board had an unfunded pension liability for each plan as at March 31, which was estimated as follows:

	1997	1996
Management Employees' Pension Plan	\$ 108,426	\$ 119,878
Public Service Pension Plan	14,157	24,021
	<u>\$ 122,583</u>	<u>\$ 143,899</u>

The total unfunded pension liability for each plan as at March 31, 1997 was determined by actuarial valuations as at December 31, 1995 for the Public Service plan and as at December 31, 1994 for the Management Employees' plan, both extrapolated to March 31, 1997.

The actuarial valuations were determined using the projected benefit method prorated on service. Assumptions used in the valuations are based on each Pension Board's best estimate of future events. Each Plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will be amortized over the expected average remaining service life of the employee group. Gains or losses for which there is reasonable assurance regarding their measurement and realization are recognized in income immediately.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded liability for each plan which will be funded by employers. The Board's portion of those employers' liabilities was based on the Board's percentage of the total pensionable payroll of all employers in each Plan.

Note 8 Feta Cheese Program

The feta cheese program was established by the Board to help Alberta processors to compete with lower priced milk and feta cheese products outside of Alberta. This program is funded by a specific assessment on producers.

Note 9 Related Party Transactions

Administration costs

In addition to a government grant of \$139,000 (1996 \$162,000), the General Revenue Fund of the Province of Alberta bears the cost of the following:

- Administration services, including legal, audit, and personnel services; and
- Accommodation costs, including office space, basic utilities, repairs, maintenance, RITE telephone system, office furniture and certain office equipment. This cost has been estimated at \$19,800 for the 1997 fiscal year (1996 \$19,800).

Interest on cash deposits

Interest from cash deposits in the Consolidated Cash Investment Trust Fund, is credited directly to the General Revenue Fund of the Province of Alberta. This interest amounted to \$237,000 for the 1997 fiscal year.

Note 10 Salaries and Benefits

	1997				1996	
	Number of Individuals	Salaries ⁽¹⁾	Benefits and Allowances ⁽²⁾	Total	Number of Individuals	Total
Chairman of the Board	1.0	\$ 75,400	\$ 12,858	\$ 88,258	1.0	\$ 87,854
Board members	4.0	15,664	-	15,664	4.0	12,875
Policy Committee members	8.0	3,219	-	3,219	8.0	2,579
Managing Director	1.0	68,595	11,475	80,070	1.0	75,781
Senior Business and Financial Analyst	1.0	51,953	10,009	61,962	1.0	62,187
Other salaried staff (average 1997 \$36,085 1996 \$32,379)	6.5 ⁽³⁾	202,523	31,640	234,163	5.7 ⁽³⁾	184,562
Non-salaried staff ⁽⁴⁾		33,996	-	33,996		28,758
Long-term disability staff		-	8,951	8,951		8,481
Vacation pay accrual adjustment		-	(1,990)	(1,990)		8,345
Increase (decrease) in pension liability		-	(21,316)	(21,316)		5,865
		<u>\$451,350</u>	<u>\$ 51,627</u>	<u>\$502,977</u>		<u>\$477,287</u>

(1) Salaries include regular base pay, bonuses, overtime, lump sum payments, honoraria and any other direct cash remuneration.

(2) Benefits and allowances includes the Board's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, long and short-term disability plans, professional memberships and tuition.

(3) Number of individuals is stated in terms of full-time equivalents.

(4) Non-salaried staff includes all wage staff and others remunerated on an hourly basis.

Note 11 Investigation and Contingent Liability

During the year, the Board continued its investigations into the activities of certain non-licensed producers and processors. Criminal and civil charges were commenced against these producers and a processor under the Canadian Dairy Commission Act and the Dairy Board Act.

In obtaining a court injunction against the producers, the Board has guaranteed to pay damages if the producers are found not guilty. As these proceedings are ongoing, the potential outcome is not determinable and, as a result, an estimate of loss to the Board cannot be made.

Note 12 Restrictions on Net Assets

The Board has internally restricted surpluses occurring on quota exchange transfers. These net assets will be used to cover any future quota exchange transaction deficiencies.

	1997	1996
Sales of quota	\$ 1,343,466	\$ 5,360,870
Purchases of quota	<u>1,343,527</u>	<u>5,360,759</u>
Net quota exchange transfers, representing increase (decrease) in net assets restricted for quota exchange for the year	(61)	111
Balance at beginning of year	11,804	11,693
Balance at end of year	<u>\$ 11,743</u>	<u>\$ 11,804</u>

Note 13 Net Changes in Non-cash Operating Working Capital

Net changes in non-cash operating working capital comprise:

	1997	1996
Due from processors, producers and others	\$ 186,002	\$ 706,191
Prepaid expenses	(685)	35
Due to producers	(210,620)	(847,005)
Due to Province of Alberta	-	(33,455)
Accounts payable	142,603	6,177
	<u>\$ 117,300</u>	<u>\$ (168,057)</u>

Note 14 Budget

The 1996-97 budget was approved by the Board of Directors on July 3, 1996.

Note 15 Approval of Financial Statements

These financial statements were approved by management.

Schedule 1

ALBERTA DAIRY CONTROL BOARD
SCHEDULE OF TRUST TRANSACTIONS
FOR THE YEAR ENDED MARCH 31, 1997

	1997					1996
	Price Equalization	Canadian Dairy Commission	Alberta Milk Producers' Society	Dairy Nutrition Council of Alberta	Universal Check-off	Total
Trust transactions with processors and producers:						
Amounts received	\$ 41,263,425	\$ 9,322,018	\$ 4,081,719	\$ 326,537	\$ 650,227	\$ 55,643,926
Amounts receivable	3,043,164	-	387,095	30,972	62,083	3,523,314
Amounts paid out	(37,749,333)	(10,281,811)	(4,456,154)	(356,490)	(707,240)	(53,551,028)
Net increase (decrease) in trust liabilities	6,557,256	(959,793)	12,660	1,019	5,070	5,616,212
Trust liabilities at beginning of year	1,247,940	1,228,684	376,115	30,087	57,541	2,940,367
Trust liabilities at end of year	<u>\$ 7,805,196</u>	<u>\$ 268,891</u>	<u>\$ 388,775</u>	<u>\$ 31,106</u>	<u>\$ 62,611</u>	<u>\$ 8,556,579</u>
						<u>\$ 2,940,367</u>

ALBERTA ALCOHOL AND DRUG ABUSE COMMISSION
FINANCIAL STATEMENTS
MARCH 31, 1997

Auditor's Report
Statement of Financial Position
Statement of Revenues, Expenses and Accumulated Deficit
Statement of Changes in Financial Position
Notes to the Financial Statements

AUDITOR'S REPORT

To the Members of the Alberta
Alcohol and Drug Abuse Commission

I have audited the statement of financial position of the Alberta Alcohol and Drug Abuse Commission as at March 31, 1997 and the statements of revenues, expenses and accumulated deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting as described in Note 2 to the financial statements.

I also report that, as indicated in Note 3 to the financial statements, the Commission, in providing the services related to the problem gambling program, exceeded its authority as defined in the Alcohol and Drug Abuse Act.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
May 2, 1997

ALBERTA ALCOHOL AND DRUG ABUSE COMMISSION
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 1997

	1997	1996
ASSETS		
Current assets:		
Cash (Note 4)	\$ 1,458,823	\$ 1,188,609
Accounts receivable	163,393	190,087
Inventory	218,845	242,316
	<u>1,841,061</u>	<u>1,621,012</u>
Capital assets (Note 5)	911,801	711,714
	<u>\$ 2,752,862</u>	<u>\$ 2,332,726</u>
LIABILITIES AND ACCUMULATED DEFICIT		
Current liabilities:		
Accrued vacation pay	\$ 1,802,000	\$ 1,718,000
Accounts payable	1,032,763	721,537
Unearned revenue	22,939	33,550
Deferred contributions (Note 6)	582,786	366,849
	<u>3,440,488</u>	<u>2,839,936</u>
Pension liability (Note 7)	1,683,000	2,413,000
Accumulated deficit	(2,370,626)	(2,920,210)
	<u>\$ 2,752,862</u>	<u>\$ 2,332,726</u>

The accompanying notes are part
of these financial statements.

ALBERTA ALCOHOL AND DRUG ABUSE COMMISSION
STATEMENT OF REVENUES, EXPENSES AND ACCUMULATED DEFICIT
FOR THE YEAR ENDED MARCH 31, 1997

	1997		1996
	Budget (Note 8)	Actual	Actual
Revenues:			
Contributions from the General Revenue Fund,			
Department of Community Development (Note 9)	\$ 25,920,000	\$ 25,920,000	\$ -
Department of Health	-	-	26,544,000
Contribution from the Lottery Fund	2,196,000	1,708,391	954,018
Client fees	864,000	867,539	655,567
Seminar fees	84,000	170,643	178,413
Publications	80,000	123,140	126,795
Grants	23,000	23,100	1,589
Donations	-	13,328	10,396
Miscellaneous	38,000	23,671	29,662
	<u>29,205,000</u>	<u>28,849,812</u>	<u>28,500,440</u>
Expenses: (Note 2(a))			
Manpower (Note 10):			
Salaries	13,633,000	12,689,277	12,774,961
Employer contributions	2,181,000	2,405,853	2,240,062
Wages	1,144,000	1,903,668	1,742,780
Allowances and benefits	79,000	59,872	79,324
Pension expense adjustment (Note 7)	-	(730,000)	(49,000)
	<u>17,037,000</u>	<u>16,328,670</u>	<u>16,788,127</u>
Grants:			
Direct financial assistance to agencies	<u>7,079,000</u>	<u>7,119,396</u>	<u>7,093,923</u>
Other:			
Professional, technical and labour services	3,286,000	2,366,367	2,327,490
Materials and supplies	603,000	844,770	637,519
Travel and relocation	415,000	523,070	452,231
Telephones	263,000	248,474	25,944
Amortization	235,000	231,587	291,163
Voluntary separation payments	-	166,693	196,028
Bad debts	60,000	12,066	57,500
Board members' fees (Note 10)	37,000	20,865	35,414
Hosting	12,000	14,553	11,007
Other operating expenses	<u>419,000</u>	<u>423,717</u>	<u>353,470</u>
	<u>5,330,000</u>	<u>4,852,162</u>	<u>4,387,766</u>
	<u>29,446,000</u>	<u>28,300,228</u>	<u>28,269,816</u>
Excess (deficiency) of revenues over expenses	<u>\$ (241,000)</u>	<u>549,584</u>	<u>230,624</u>
Accumulated deficit at beginning of year		<u>(2,920,210)</u>	<u>(3,150,834)</u>
Accumulated deficit at end of year		<u>\$ (2,370,626)</u>	<u>\$ (2,920,210)</u>

ALBERTA ALCOHOL AND DRUG ABUSE COMMISSION
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
Operating activities:		
Excess of revenues over expenses for the year	\$ 549,584	\$ 230,624
Add non-cash charges:		
Amortization of capital assets	231,587	291,163
Pension expense adjustment	(730,000)	(49,000)
	51,171	472,787
Decrease in non-cash working capital	650,717	260,122
Cash provided by operating activities	701,888	732,909
Investing activities:		
Acquisition of capital assets	(432,360)	(289,055)
Proceeds on disposal of capital assets	686	4,454
Cash used in investing activities	(431,674)	(284,601)
Increase in cash	270,214	448,308
Cash at beginning of year	1,188,609	740,301
Cash at end of year	<u>\$ 1,458,823</u>	<u>\$ 1,188,609</u>

ALBERTA ALCOHOL AND DRUG ABUSE COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997

Note 1 Authority and Purpose

The Alberta Alcohol and Drug Abuse Commission (the "Commission") operates as an agent of the Crown under the authority of the Alcohol and Drug Abuse Act, Chapter A-38, Revised Statutes of Alberta 1980. The Commission is dependent on grants from the General Revenue Fund of the Province of Alberta, Department of Community Development for funding its programs and for meeting its obligations as they become due.

The Commission's purpose is to assist Albertans in achieving a life free from the abuse of alcohol, other drugs and gambling. The Commission does this by providing community-based information, prevention and treatment services.

The Commission is a Government of Alberta agency and is not subject to Canadian taxes.

Note 2 Significant Accounting Policies and Reporting Practices

(a) General

These financial statements have been prepared in accordance with generally accepted accounting principles except that accommodation and certain other administration expenses incurred in the administration of the Commission have not been included in the Commission's expenses. These costs are incurred and recorded by the General Revenue Fund, Department of Public Works, Supply and Services.

(b) Revenue Recognition

Operating grants from the General Revenue Fund, Department of Community Development are recognized as revenue when they are receivable.

Unrestricted donations are recognized as revenue when they are received. Donations of materials and services that would otherwise have been purchased are recorded at fair value when it can reasonably be determined.

Externally restricted contributions are deferred and are recognized as revenue in the period in which the related expenses are incurred.

Operating grants from the Lottery Fund for the problem gambling program are deferred and are recognized as revenue in the period in which the related expenses are incurred.

(c) Inventory

Inventory is valued at the lower of cost and replacement cost.

(d) Capital Assets

Capital assets are recorded at cost net of accumulated amortization. Amortization is provided over the estimated useful lives of the assets as follows:

Furniture and equipment	- 10 years straight-line
Computer equipment and software	- 5 years straight-line
Books, films and tapes	- on acquisition

(e) Pension Costs

Pension costs comprise the cost of pension benefits earned by employees during the year, interest on the Commission's share of the unfunded pension liabilities, the amortization of deferred adjustments which relate to the long term over the expected average remaining service life of employees, adjustments to the pension obligation that are recognized immediately if there is reasonable assurance that a gain or loss has been realized, and the effect of the change in the ratio used to allocate the plans' total unfunded liabilities to participating entities.

On the statement of revenues, expenses and accumulated deficit, pension costs which have been funded are included in employer contributions, while the change in the pension liability has been recorded as a pension expense adjustment.

Note 3 Problem Gambling Program

Since January 1994, the Commission has offered services and incurred expenses for the problem gambling program. During the year, the revenues and expenses for this program amounted to \$1,708,391 (1996 \$954,018). In 1994, the Alcohol and Drug Abuse Act was changed to allow the Commission to provide programs and services relating to addictions other than alcohol and drug abuse. However, pursuant to this Act, the operation of the problem gambling program requires authorization from the Lieutenant Governor in Council. The Commission has not obtained this authorization from the Lieutenant Governor in Council. Therefore, the Commission has, in operating this program, exceeded its authority as defined in its Act and regulations. The Commission expects to obtain the required authorization in the 1997-98 fiscal year.

Note 4 Cash

Cash consists of deposits in the Consolidated Cash Investment Trust Fund (the "Fund") of the Province of Alberta. The Fund is being managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of five years. Interest is earned on the Commission's daily cash balance at the average rate of the Fund's earnings, which vary depending on prevailing market interest rates.

Note 5 Capital Assets

Capital assets consist of the following:

	1997		1996	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and equipment	\$ 1,041,650	\$ 795,624	\$ 246,026	\$ 262,725
Computer equipment and software	1,802,925	1,137,150	665,775	448,989
Books, films and tapes	461,802	461,802	-	-
	<u>\$ 3,306,377</u>	<u>\$ 2,394,576</u>	<u>\$ 911,801</u>	<u>\$ 711,714</u>

Note 6 Deferred Contributions

Deferred contributions consist of unexpended Lottery Fund grants for the problem gambling program and unexpended funds for Memorial Trust purposes which are externally restricted to be used to supplement the work of the Commission in the areas of research and education and to acquire capital assets. Changes in deferred contributions are as follows:

	1997	1996
Contributions from the Lottery Fund	\$ 1,871,000	\$ 1,065,000
Interest earned	48,550	39,570
Donations	3,451	1,685
Miscellaneous	2,072	3,239
Transferred to revenue	(1,709,136)	(963,130)
Increase during the year	215,937	146,364
Balance at beginning of year	366,849	220,485
Balance at end of year	<u>\$ 582,786</u>	<u>\$ 366,849</u>

The balance at the end of the year can only be used for the following:

	1997	1996
Problem gambling program	\$ 535,697	\$ 324,538
Memorial Trust purposes	47,089	42,311
	<u>\$ 582,786</u>	<u>\$ 366,849</u>

Note 7 Pension Liability

The Commission participates with other employers in the Public Service Pension Plan and the Management Employees Pension Plan. These plans provide pensions for the Commission's employees based on their years of service and earnings.

The Commission had an unfunded pension liability for each plan as at March 31 which was estimated as follows:

	1997	1996
Public Service Pension Plan	\$ 714,000	\$ 1,291,000
Management Employees Pension Plan	969,000	1,122,000
	<u>\$ 1,683,000</u>	<u>\$ 2,413,000</u>

The total unfunded pension liability for each plan as at March 31, 1997 was determined by actuarial valuation as at December 31, 1995 for the Public Service Pension Plan and December 31, 1994 for the Management Employees Pension Plan, both extrapolated to March 31, 1997. The 1996 comparatives were determined by extrapolation to March 31, 1996 of actuarial valuations as at December 31, 1993 for the Public Service Pension Plan and as at December 31, 1994 for the Management Employees Pension Plan.

The actuarial valuations were determined using the projected benefit method prorated on service. Assumptions used in the valuations are based on the Pension Boards' best estimate of future events. Each plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses which relate to the long term are amortized over the expected average remaining service life of the employee group. Gains and losses for which there is reasonable assurance regarding their measurement and realization are recognized in income immediately.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded liability for each plan that will be funded by employers. The Commission's portion of those employers' liabilities was based on the Commission's percentage of the total pensionable payroll of all employers in each plan.

Note 8 Budget

The contributions from the General Revenue Fund, Department of Community Development, shown on the statement of revenues, expenses and accumulated deficit, agree with the 1996-97 Government Estimates. A detailed budget of revenues and expenses, prepared by management on March 25, 1996, has been included in these financial statements for comparison with the actual figures.

Note 9 Related Party Transactions with the General Revenue Fund

Other related party transactions related to the Commission's activities are:

- (a) The Province of Alberta recovers part of its contributions to the Commission from the Government of Canada under the Vocational Rehabilitation of Disabled Persons and Alcohol and Drug Treatment and Rehabilitation agreements. Amounts recovered are included in revenues of the General Revenue Fund, Departments of Community Development and Family and Social Services. Claims relating to the Commission's activities for the years ended March 31, 1997 and March 31, 1996 amount to approximately \$10,810,000 and \$11,600,000 respectively.
- (b) Accommodation and certain other administration expenses, estimated to be approximately \$4,300,000 (1996 \$4,730,000), incurred in the administration of the Commission have not been included in the Commission's expenses. These costs are incurred and recorded by the General Revenue Fund, Department of Public Works, Supply and Services.
- (c) Interest of \$140,723 (1996 \$228,323), earned on contributions from the General Revenue Fund, Department of Community Development, deposited in the Consolidated Cash Investment Trust Fund, has been credited directly to the General Revenue Fund, Treasury Department.

Note 10 Salaries, Wages, Benefits and Allowances

	1997				1996	
	Number of Individuals	Salaries and Wages ^(a)	Benefits and Allowances ^(b)	Total	Number of Individuals	Total
Chairman of the Board	1	\$ 12,952	\$ 117	\$ 13,069	1	\$ 15,135
Other Board members	8	7,796	-	7,796	8	20,279
Board members' fees	9	20,748	117	20,865	9	35,414
	Full-time Equivalents				Full-time Equivalents	
Chief Executive Officer ^(c)	1	85,935	16,183	102,118	1	100,818
Executive Director, Program Services	1	85,604	15,998	101,602	1	100,116
Divisional Directors:						
Consultation, Information and Funded Services	1	69,232	14,325	83,557	1	82,044
Corporate Services	1	68,361	13,550	81,911	1	83,057
Southern Alberta Addictions Services	1	64,288	13,140	77,428	1	83,422
Northern Alberta Addictions Services	1	61,197	12,686	73,883	1	70,236
Comptroller	1	60,004	13,063	73,067	1	64,610
Central Alberta Addictions Services	1	60,616	12,249	72,865	1	71,456
Other managers						
(average 1997 \$61,879 1996 \$59,905)	23	1,168,907	254,309	1,423,216	23	1,377,823
Other salaried staff						
(average 1997 \$39,291 1996 \$39,450)	327	10,881,133	1,966,965	12,848,098	328	12,939,522
Non-salaried staff		1,903,668	133,257	2,036,925		1,863,032
		14,508,945	2,465,725	16,974,670		16,836,136
Adjustments:						
Increase (reduction) in accrued vacation pay		84,000	-	84,000		991
Increase (reduction) in pension liability		-	(730,000)	(730,000)		(49,000)
Manpower expense		14,592,945	1,735,725	16,328,670		16,788,127
		\$ 14,613,693	\$ 1,735,842	\$ 16,349,535		\$ 16,823,541

^(a) Salaries and wages include regular pay, overtime, lump sum payments and any other direct cash remuneration.

^(b) Benefits and allowances include the Commission's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, short and long-term disability plans, tuition fees, conference fees, professional memberships and vacation payouts.

^(c) An amount has not been included in benefits and allowances for the automobile provided to the Chief Executive Officer.

Note 11 Comparative Figures

Certain 1996 figures have been reclassified to conform to 1997 presentation.

Note 12 Approval of Financial Statements

These financial statements were approved by management.

ALBERTA FOUNDATION FOR THE ARTS
FINANCIAL STATEMENTS
MARCH 31, 1997

Auditor's Report
Balance Sheet
Statement of Revenues, Expenses and Fund Balance
Statement of Equity in Artworks
Statement of Changes in Financial Position
Notes to the Financial Statements

AUDITOR'S REPORT

To the Members of the Alberta Foundation for the Arts

I have audited the balance sheet of the Alberta Foundation for the Arts as at March 31, 1997 and the statements of revenues, expenses and fund balance, equity in artworks, and changes in financial position for the year then ended. These financial statements are the responsibility of management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
May 9, 1997

ALBERTA FOUNDATION FOR THE ARTS
BALANCE SHEET
AS AT MARCH 31, 1997

	1997	1996
ASSETS		
Current assets:		
Cash and short-term investments (Note 4)	\$ 1,338,922	\$ 1,960,751
Accrued interest	158,771	164,823
Accounts receivable and prepaid expenses	11,790	50,150
Loans and advances	250,000	1,224,506
	<u>1,759,483</u>	<u>3,400,230</u>
Long-term investments (Note 5)	2,866,746	2,866,746
Capital assets (Note 6)	<u>68,273</u>	<u>66,093</u>
Artworks:		
Purchased	4,095,874	3,866,164
Donated	976,126	925,126
	<u>5,072,000</u>	<u>4,791,290</u>
	<u>\$ 9,766,502</u>	<u>\$ 11,124,359</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Grants payable	\$ 510,472	\$ 628,264
Accounts payable	66,256	58,183
	<u>576,728</u>	<u>686,447</u>
Long-term grant payable (Note 7)	<u>1,000,000</u>	<u>1,500,000</u>
Equity:		
Equity in artworks	5,072,000	4,791,290
General reserve (Note 8)	2,866,746	2,866,746
Fund balance	251,028	1,279,876
	<u>8,189,774</u>	<u>8,937,912</u>
	<u>\$ 9,766,502</u>	<u>\$ 11,124,359</u>
Commitments (Note 9)		

The accompanying notes are part
of these financial statements.

ALBERTA FOUNDATION FOR THE ARTS
STATEMENT OF REVENUES, EXPENSES AND FUND BALANCE
FOR THE YEAR ENDED MARCH 31, 1997

	1997		1996
	Budget (Note 10)	Actual	Actual
REVENUES			
Contribution from the Lottery Fund, a related party	\$ 16,104,000	\$ 16,104,000	\$ 16,104,000
Interest	390,000	460,404	611,025
Gain on de-accession of artworks	-	-	8,700
Miscellaneous	1,000	428	818
	<u>16,495,000</u>	<u>16,564,832</u>	<u>16,724,543</u>
EXPENSES			
Grant programs:			
Operating assistance (Note 11)	12,516,608	12,818,810	13,006,370
Project support (Note 12)	2,509,500	2,329,286	2,472,115
Special (Note 13)	-	1,200,000	-
Other	34,500	25,500	80,000
	<u>15,060,608</u>	<u>16,373,596</u>	<u>15,558,485</u>
Art programs:			
Provincial traveling exhibition	250,000	260,000	271,335
Summer schools	233,000	241,400	239,744
Other	76,500	89,489	51,143
	<u>559,500</u>	<u>590,889</u>	<u>562,222</u>
Program costs	<u>15,620,108</u>	<u>16,964,485</u>	<u>16,120,707</u>
Administration (Notes 3 and 14)	<u>528,906</u>	<u>399,485</u>	<u>465,027</u>
	<u>16,149,014</u>	<u>17,363,970</u>	<u>16,585,734</u>
Excess (deficiency) of revenues over expenses for the year	345,986	(799,138)	138,809
Transfers from (to) equity in artworks:			
Artwork purchases	(268,000)	(231,710)	(264,680)
De-accessions - artworks damaged	-	2,000	3,600
Change in fund balance during the year	<u>\$ 77,986</u>	<u>(1,028,848)</u>	<u>(122,271)</u>
Fund balance at beginning of year		1,279,876	1,402,147
Fund balance at end of year		<u>\$ 251,028</u>	<u>\$ 1,279,876</u>

ALBERTA FOUNDATION FOR THE ARTS
STATEMENT OF EQUITY IN ARTWORKS
MARCH 31, 1997

	1997		1996
	Budget (Note 10)	Actual	Actual
Equity in artworks at beginning of year		\$ 4,791,290	\$ 4,462,760
Additions:			
Artworks purchased	<u>\$ 268,000</u>	231,710	264,680
Artworks donated		51,000	67,450
		<u>5,074,000</u>	<u>4,794,890</u>
De-accessions - Artworks damaged		2,000	3,600
Equity in artworks at end of year		<u>\$ 5,072,000</u>	<u>\$ 4,791,290</u>

ALBERTA FOUNDATION FOR THE ARTS
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997

	1997		
	Budget (Note 10)	Actual	1996
Operating activities:			
Excess (deficiency) of revenues over expenses for the year	\$ 345,986	\$ (799,138)	\$ 138,809
Add (deduct) non-cash items:			
Amortization of capital assets	28,000	21,337	23,272
Loss (gain) on de-accession of artworks	-	2,000	(8,700)
Amortization of discount on investments	(343)	(360)	(257)
	<u>373,643</u>	<u>(776,161)</u>	<u>153,124</u>
Decrease (increase) in non-cash working capital	1,239,329	909,199	(685,522)
Cash provided by (used in) operating activities	<u>1,612,972</u>	<u>133,038</u>	<u>(532,398)</u>
Investing activities:			
Proceeds from disposals of investments	921,687	921,687	150,017
Increase in cash appropriated for non-current use	(878,165)	(878,128)	(108,929)
Acquisitions of artworks	(268,000)	(282,710)	(332,130)
Purchases of investments	(43,199)	(43,199)	(40,831)
Acquisitions of capital assets	(5,000)	(24,574)	(32,161)
Proceeds on disposal of capital assets	-	1,057	-
Settlements for lost and accidentally destroyed artworks	-	-	12,300
Cash used in investing activities	<u>(272,677)</u>	<u>(305,867)</u>	<u>(351,734)</u>
Financing activities:			
Decrease in long-term grant payable	(500,000)	(500,000)	(500,000)
Donations of artworks	-	51,000	67,450
Cash used in financing activities	<u>(500,000)</u>	<u>(449,000)</u>	<u>(432,550)</u>
Increase (decrease) in cash and short-term investments	840,295	(621,829)	(1,316,682)
Cash and short-term investments at beginning of year	1,960,751	1,960,751	3,277,433
Cash and short-term investments at end of year	<u>\$ 2,801,046</u>	<u>\$ 1,338,922</u>	<u>\$ 1,960,751</u>

ALBERTA FOUNDATION FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997

Note 1 Authority and Purpose

The Alberta Foundation for the Arts (the "Foundation") operates under the authority of the Alberta Foundation for the Arts Act, Chapter A-21.5, Statutes of Alberta 1991.

The purposes of the Foundation are:

- to support and contribute to the development of and to promote the arts in Alberta;
- to provide persons and organizations with the opportunity to participate in the arts in Alberta;
- to foster and promote the enjoyment of works of art by Alberta artists;
- to collect, preserve and display works of art by Alberta artists; and
- to encourage artists resident in Alberta in their work.

The Foundation is a crown agent of the Government of Alberta and as such has a tax exempt status.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Revenue Recognition

Operating grants are recognized as revenue in the period receivable.

Donated artworks are recorded as direct increases in net assets at appraised values at the date of acquisition.

Unrestricted donations are recognized as revenue when they are received. Donations of materials and services that would otherwise have been purchased are recorded at fair value when it can reasonably be determined.

(b) Investments

Investments are recorded at cost or amortized cost, where applicable. Amortization of premium or discount is calculated on a straight-line basis from acquisition date to maturity date. Where there has been a loss in the value of an investment that is other than a temporary decline, the investment is written down to recognize the loss.

(c) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the capital assets on a straight-line basis using the following annual rates:

Office furniture, equipment and furnishings	15%
Computer equipment	25%

(d) Artworks

Purchased artworks are recorded at cost. Artworks are not amortized. Proceeds from the disposition of artworks can only be used to acquire other items to be added to the collection or for the direct care of existing artworks.

(e) Expenses

Grants are recorded as expenses when authorized by the Foundation's Members and when eligibility conditions for the grants have been satisfied.

Note 3 Administration Costs

Certain salary costs, accommodation and other overhead costs, estimated by management to be approximately \$625,000, incurred in the administration of the Foundation have not been included in the Foundation's expenses. These costs are incurred and recorded by the General Revenue Fund of the Province of Alberta, Departments of Community Development and Public Works, Supply and Services.

Note 4 Cash and Short-Term Investments

Cash consists of deposits in the Consolidated Cash Investment Trust Fund (the "Fund") of the Province of Alberta. The fund is being managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of five years. The Foundation earns interest on its daily cash balance at the average rate of earnings of the Fund, which varies depending on prevailing market interest rates.

Short-term investments consists of Government of Canada bonds and deposits with financial institutions and life insurance companies that mature within one year.

The year end balance consists of:

	1997	1996
Cash	\$ 1,583,981	\$ 2,099,351
Short-term investments	921,687	150,018
	<u>2,505,668</u>	<u>2,249,369</u>
Less appropriated for non-current use	1,166,746	288,618
	<u>\$ 1,338,922</u>	<u>\$ 1,960,751</u>

Note 5 Long-Term Investments

Long-term investments consist of the following:

	Effective Interest Rate	1997		1996	
		Maturing in One to Four Years		Total	
		Cost	Market	Cost	Market
Deposits with financial institutions and life insurance companies ^(a)	10.27%	\$ 1,700,000	\$ 1,700,000	\$ 2,278,831	\$ 2,278,831
Government of Canada bonds		-	-	299,297	325,050
		<u>1,700,000</u>	<u>\$ 1,700,000</u>	<u>2,578,128</u>	<u>\$ 2,603,881</u>
Cash and short-term investments appropriated for non-current use		1,166,746		288,618	
		<u>\$ 2,866,746</u>		<u>\$ 2,866,746</u>	

^(a) The deposits with financial institutions and life insurance companies can be realized prior to maturity dates only with the payment of penalties.

Note 6 Capital Assets

Capital assets consist of the following:

	1997		1996
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 127,984	\$ 92,085	\$ 35,899
Office furniture, equipment and furnishings	83,086	50,712	32,374
	<u>\$ 211,070</u>	<u>\$ 142,797</u>	<u>\$ 68,273</u>
			<u>\$ 66,093</u>

Note 7 Long-Term Grant Payable

On March 10, 1995, the Foundation signed an agreement to give \$2,500,000 over a period of three to five years to the Alberta Performing Arts Stabilization Fund ("Stabilization Fund"), a corporation that will provide grants and technical and management assistance to performing arts organizations in Alberta. At the year end, the Foundation had paid the Stabilization Fund \$1,000,000. The amount payable in 1997-98 of \$500,000 has been recorded as a current liability and included in grants payable.

Note 8 General Reserve

The general reserve has been established by appropriation from fund balance. The reserve is not available to the Foundation for use in its operations unless written approval is received from the Minister of Community Development.

Interest earned on the reserve amount is reported as operating revenue.

Note 9 Commitments

At March 31, 1997, the Foundation had commitments in the amount of \$692,558 for grants approved but not expended, pending fulfillment of eligibility conditions.

The Foundation is also committed to supporting the Information Network for Libraries initiative of The Alberta Library with \$1,200,000 in each of 1998-99 and 1999-2000. The Alberta Library has been incorporated by the major libraries in the Province of Alberta to help implement an electronic library network among the public libraries in Alberta.

Note 10 Budget

The budget for the Foundation, shown in the 1996-97 Government Estimates, has been reconciled, below, to the budget approved by management on July 14, 1995, and is presented on the statement of revenues, expenses and fund balance. The statement of revenues, expenses and fund balance and the notes to the financial statements also contain other detailed budget amounts that were approved by management. Budget amounts on the statement of changes in financial position were approved by the Members of the Foundation on October 18, 1996 and are in agreement with the 1996-97 Government Estimates.

	Management Budget of July 14, 1995	Adjustments	Budget per the 1996-97 Government Estimates
Revenues:			
Contributions from the Lottery Fund	\$ 16,104,000	\$ -	\$ 16,104,000
Interest	425,000	(35,000)	390,000
Miscellaneous	1,000	-	1,000
Total revenues	<u>16,530,000</u>	<u>(35,000)</u>	<u>16,495,000</u>
Expenses:			
Programs	15,655,108	(35,000) ^(a)	15,620,108
Administration	500,906	-	500,906
Amortization	23,000	5,000	28,000
Total expenses	<u>16,179,014</u>	<u>(30,000)</u>	<u>16,149,014</u>
Excess of revenues over expenses	<u>\$ 350,986</u>	<u>\$ (5,000)</u>	<u>\$ 345,986</u>
Acquisition of artworks	\$ 268,000		
Acquisition of capital assets	5,000		
Acquisition of artworks and capital assets	<u>\$ 273,000</u>		<u>\$ 273,000</u>

^(a) The reduction in the 1996-97 Government Estimates for program expenses has been applied by management to reduce the project support grants for performing arts.

Note 11 Operating Assistance Grants

Operating assistance grants are primarily paid to organizations to assist them in meeting a portion of their operating expenses. The Foundation's grants enable organizations to carry out their mandates and to attract other funding. Grants have been paid to organizations in the following major groupings:

	1997		1996
	Budget (Note 10)	Actual	Actual
Professional performing arts organizations	\$ 5,468,808	\$ 5,577,784	\$ 5,524,000
Art galleries	1,400,000	1,432,367	1,445,999
Provincial organizations	1,160,000	1,073,300	1,143,587
Major facilities	1,000,000	1,000,000	1,319,400
Festivals	776,000	965,911	787,808
Amateur operating assistance	800,000	863,046	912,556
Community series	720,000	733,384	641,975
Film and video	575,000	579,000	585,125
Publishing	446,800	445,068	436,053
Cultural components ^(a)	125,000	103,950	162,500
Literary organizations	45,000	45,000	47,367
	<u>\$12,516,608</u>	<u>\$12,818,810</u>	<u>\$13,006,370</u>

^(a) The Foundation provided these grants to the Alberta Sport, Recreation, Parks and Wildlife Foundation, a related party. The grants were for staging cultural components at Alberta Games and at Alberta Future Leaders Program events.

Note 12 Project Support Grants

Project support grants are paid to individuals and organizations to meet a portion of the expenses required to complete specific projects. Grants have been paid in the following major groupings:

	1997		1996
	Budget (Note 10)	Actual	Actual
Performing arts	\$ 615,000	\$ 474,031	\$ 610,859
Visual arts	389,000	397,766	365,054
Educational touring	200,000	234,802	236,658
Writers	257,000	226,062	252,030
Artists in schools residency	155,000	191,045	170,591
Commissioning public art	157,500	186,541	133,455
Film and video projects	127,000	139,437	121,695
Art study	136,000	135,980	138,880
Literary	168,000	124,332	133,987
In-Province touring	100,000	85,837	87,250
Alberta Heritage Scholarship Fund	50,000	50,000	50,000
Multidisciplinary	-	38,080	60,000
Development	-	30,000	-
Public art purchase	55,000	8,350	17,992
Libraries	100,000	7,023	93,664
	<u>\$ 2,509,500</u>	<u>\$ 2,329,286</u>	<u>\$ 2,472,115</u>

Note 13 Special Grant

As part of a commitment to support the Information Network for Libraries initiative, the Foundation made a grant payment of \$1,200,000 to The Alberta Library.

Note 14 Administration Expenses

Administration expenses can be borne by the Foundation or by the General Revenue Fund, Departments of Community Development and Public Works, Supply and Services (see Note 3). Administration expenses borne by the Foundation consist of:

	1997		1996
	Budget (Note 10)	Actual	Actual
Salaries, honoraria and benefits (Note 15):			
Staff salaries, benefits and allowances	\$ 223,400	\$ 127,538	\$ 170,792
Adjudicators' fees	45,000	39,275	38,132
Honoraria to Foundation Members	10,000	10,219	8,504
	<u>278,400</u>	<u>177,032</u>	<u>217,428</u>
Office and other	81,506	54,205	62,921
Technical and professional fees	38,000	52,291	47,941
Foundation Members' travel and subsistence	60,000	36,086	29,129
Adjudicators' travel and subsistence	30,000	22,395	22,052
Severance payments	-	21,747	54,075
Amortization of capital assets	28,000	21,337	23,272
Staff travel, subsistence and development	13,000	12,392	8,209
Loss on de-accession of artwork	-	2,000	-
	<u>\$ 528,906</u>	<u>\$ 399,485</u>	<u>\$ 465,027</u>

Note 15 Salaries, Honoraria and Benefits

Salaries and benefits paid to employees and honoraria paid to Foundation Members and adjudicators are as follows:

	1997				1996	
	Number of Individuals	Salaries and Honoraria ^(a)	Benefits and Allowances ^(b)	Total	Number of Individuals	Total
Foundation ^(c) :						
Chairman	1	\$ 4,749	\$ -	\$ 4,749	1	\$ 5,766
Other Members	8	5,470	-	5,470	9	2,738
Honoraria to						
Foundation Members	9	10,219	-	10,219	10	8,504
Adjudicators' fees ^(d) (average 1997 \$485, 1996 \$454)	81	39,275	-	39,275	84	38,132
	Full-time Equivalents				Full-time Equivalents	
Executive Director ^(c)	1.00	-	-	-	1.00	-
Administrator	1.00	47,458	12,276	59,734	1.00	49,927
Other salaried staff (average 1997 \$35,203, 1996 \$35,668)	2.00	60,004	10,402	70,406	3.30	117,703
Non-salaried staff		-	-	-		2,749
		107,462	22,678	130,140		170,379
Increase (decrease) in accrued vacation pay		(2,602)	-	(2,602)		413
Staff salaries, benefits and allowances		104,860	22,678	127,538		170,792
		<u>\$154,354</u>	<u>\$ 22,678</u>	<u>\$177,032</u>		<u>\$217,428</u>

(a) Salaries and honoraria include regular pay, overtime, and any other direct cash remuneration.

(b) Benefits and allowances include the Foundation's contributions for unemployment insurance, Canada Pension Plan, health care premiums, disability insurance, workers compensation, vacation payments, and contributions to individual employee controlled registered retirement savings plans.

(c) Members appointed to the Foundation are paid for attending Foundation meetings at rates set by Ministerial Order. They are also paid for sub-committee meetings, travel time to attend out-of-town meetings and for attending to other Foundation duties.

(d) Adjudicators are paid an honorarium on a per diem basis. No adjudicator received more than \$1,500 in the year.

(e) The Executive Director of the Foundation is paid by the General Revenue Fund, Department of Community Development (see Note 3). Information on his salary and benefits, required under Treasury Board Directive 01/94, as amended, is included with information on the salaries and benefits of staff of the Department of Community Development in Volume 2 of the 1996-97 Public Accounts of the Province of Alberta.

Note 16 Comparative Figures

Certain 1996 figures have been re-classified to conform to 1997 presentation.

Note 17 Approval of Financial Statements

These financial statements have been approved by management and by the Chairman of the Foundation.

THE ALBERTA HISTORICAL RESOURCES FOUNDATION
FINANCIAL STATEMENTS
MARCH 31, 1997

Auditor's Report
Statement of Financial Position
Statement of Revenues, Expenses and Fund Balances
Statement of Changes in Financial Position
Notes to the Financial Statements

AUDITOR'S REPORT

To the Directors of The Alberta
Historical Resources Foundation

I have audited the statement of financial position of The Alberta Historical Resources Foundation as at March 31, 1997 and the statements of revenues, expenses and fund balances, and changes in financial position for the year then ended. These financial statements are the responsibility of the Foundation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting described in Note 2 to the financial statements.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
June 13, 1997

THE ALBERTA HISTORICAL RESOURCES FOUNDATION
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 1997

	1997	1996
ASSETS		
Current assets:		
Cash (Note 4)	\$ 3,376,194	\$ 5,253,374
Accounts receivable	1,552	1,355
Inventory	4,728	6,182
Prepaid expenses	1,795	3,357
	<u>3,384,269</u>	<u>5,264,268</u>
Cash appropriated for non-current uses	225,000	225,000
Capital assets (Note 5)	9,775	12,889
	<u>\$ 3,619,044</u>	<u>\$ 5,502,157</u>
LIABILITIES AND FUND BALANCES		
Current liabilities:		
Grants payable	\$ 20,000	\$ 481,353
Accounts payable	17,472	37,300
	<u>37,472</u>	<u>518,653</u>
Fund balances:		
Restricted funds (Note 6)	587,787	1,941,641
Unrestricted operating fund	2,790,567	2,838,579
	<u>3,378,354</u>	<u>4,780,220</u>
Reserve (Note 7)	200,000	200,000
Equity in historical assets	3,218	3,284
	<u>3,581,572</u>	<u>4,983,504</u>
	<u>\$ 3,619,044</u>	<u>\$ 5,502,157</u>

Commitments (Note 8)

The accompanying notes are part
of these financial statements.

THE ALBERTA HISTORICAL RESOURCES FOUNDATION
STATEMENT OF REVENUES, EXPENSES AND FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 1997

	1997			1996	
	Actual			Budget	Actual
	Operating Fund	Restricted Funds	Total	Total	Total
				(Note 10)	
REVENUES					
Contribution from the Lottery Fund, a related party	\$5,913,000	\$ -	\$5,913,000	\$5,913,000	\$6,550,000
Interest	137,414	40,639	178,053	238,000	455,187
Donations	465	-	465	4,000	1,401,045
Miscellaneous	542	-	542	7,000	954
	<u>6,051,421</u>	<u>40,639</u>	<u>6,092,060</u>	<u>6,162,000</u>	<u>8,407,186</u>
EXPENSES (Note 3)					
Grants:					
Provincial heritage organizations:					
Alberta Museums Association	1,200,000	-	1,200,000	1,200,000	1,200,000
Archives Society of Alberta	100,000	-	100,000	100,000	100,000
Other	68,450	-	68,450	78,450	68,450
	<u>1,368,450</u>	<u>-</u>	<u>1,368,450</u>	<u>1,378,450</u>	<u>1,368,450</u>
Glenbow-Alberta Institute	2,563,000	-	2,563,000	2,563,000	3,200,000
Western Heritage Centre Society	-	1,388,580	1,388,580	1,180,000	3,291,213
Historical resources preservation	1,238,217	-	1,238,217	1,100,000	853,465
Main Street program	508,635	-	508,635	600,000	526,292
Heritage awareness	209,413	-	209,413	247,000	266,386
Roger Soderstrom Fellowship	-	2,598	2,598	3,000	1,559
Other	-	-	-	76,550	-
	<u>5,887,715</u>	<u>1,391,178</u>	<u>7,278,893</u>	<u>7,148,000</u>	<u>9,507,365</u>
Honoraria, salaries, wages and benefits (Note 9)	118,582	-	118,582	115,000	114,941
Office expenses	30,834	-	30,834	30,000	28,354
Contracted services	40,387	3,315	43,702	25,000	77,283
Board expenses	14,836	-	14,836	15,000	12,726
Amortization	3,048	-	3,048	3,000	3,313
Other operating expenses	4,097	-	4,097	6,000	22,798
	<u>6,099,499</u>	<u>1,394,493</u>	<u>7,493,992</u>	<u>7,342,000</u>	<u>9,766,780</u>
Deficiency of revenues over expenses for the year	(48,078)	(1,353,854)	(1,401,932)	(1,180,000)	(1,359,594)
Transfer from equity in historical assets	66	-	66	-	-
Change in fund balance during the year	(48,012)	(1,353,854)	(1,401,866)	(1,180,000)	(1,359,594)
Fund balances at beginning of year	2,838,579	1,941,641	4,780,220	3,901,000	6,139,814
Fund balances at end of year (Note 8)	<u>\$2,790,567</u>	<u>\$ 587,787</u>	<u>\$3,378,354</u>	<u>\$2,721,000</u>	<u>\$4,780,220</u>

THE ALBERTA HISTORICAL RESOURCES FOUNDATION
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997

	1997		1996
	Budget	Actual	Actual
	(Note 10)		
Operating activities:			
Deficiency of revenues over expenses for the year	\$ (1,180,000)	\$ (1,401,932)	\$ (1,359,594)
Add (deduct) non-cash charges:			
Amortization of capital assets	3,000	3,048	3,313
Loss on disposal of historical assets	-	66	-
	<u>(1,177,000)</u>	<u>(1,398,818)</u>	<u>(1,356,281)</u>
Decrease (increase) in non-cash working capital	-	(478,362)	502,799
Decrease in cash due to operating activities during the year	(1,177,000)	(1,877,180)	(853,482)
Cash at beginning of year	5,253,374	5,253,374	6,106,856
Cash at end of year	<u>\$ 4,076,374</u>	<u>\$ 3,376,194</u>	<u>\$ 5,253,374</u>

THE ALBERTA HISTORICAL RESOURCES FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997

Note 1 Authority and Purpose

The Alberta Historical Resources Foundation (the "Foundation") operates under the authority of the Historical Resources Act, Chapter H-8, Revised Statutes of Alberta 1980.

The purpose of the Foundation is to assist in the preservation and interpretation of Alberta's heritage primarily through the encouragement and sponsorship of community heritage initiatives.

The Foundation, as a crown agency of the Province of Alberta, has a tax exempt status.

Note 2 Significant Accounting Policies and Reporting Practices

(a) General

These financial statements have been prepared in accordance with generally accepted accounting principles except that certain salary, accommodation and other costs incurred in the administration of the Foundation have not been included in the Foundation's expenses. These costs are incurred and recorded by the General Revenue Fund of the Province of Alberta, Departments of Community Development and Public Works, Supply and Services.

(b) Fund Accounting

Transactions are grouped, for reporting purposes, into funds in accordance with specified activities or objectives. These funds are described as follows:

- The unrestricted operating fund accounts for the revenues and expenses associated with the primary activities of the Foundation. Included in this fund are the revenues and expenses of the Alberta Main Street Program.
- Restricted funds account for contributions received with imposed conditions on how the funds are to be used, the interest earned and the expenses associated with the specified activities.

(c) Revenue Recognition

Operating grants and interest revenue are recognized in the period when receivable.

Donations and restricted contributions are recognized as revenues when they are received. Donations of materials and services that would otherwise have been purchased are recorded at fair value when it can reasonably be determined.

(d) Capital Assets

Furniture and equipment are recorded at cost less an allowance for accumulated amortization. The assets are amortized at an annual rate of 15% per annum on a straight-line basis over the estimated useful lives of the assets.

(e) Historical Assets

Purchased historical assets are recorded at cost. Donated historical assets are recorded as direct increases in historical assets and in equity in historical assets. They are recorded in the financial statements at nominal values because of the practical difficulties in reflecting them at a meaningful value. Historical assets are not amortized.

(f) Artifacts and Exhibits

Costs incurred to acquire and restore artifacts and to construct exhibits are charged to expenses when incurred. The restored artifacts and exhibits are donated to the Reynolds Alberta Museum and the Remington Alberta Carriage Centre.

Note 3 Administration Costs

Certain salary, accommodation and other costs, estimated to be approximately \$82,400, incurred in the administration of the Foundation have not been included in the Foundation's expenses. These costs are incurred and recorded by the General Revenue Fund of the Province of Alberta, Departments of Community Development and Public Works, Supply and Services.

Note 4 Cash

Cash consists of deposits in the Consolidated Cash Investment Trust Fund (the "Fund") of the Province of Alberta. The Fund is being managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of five year. The Foundation earns interest on its daily cash balance at the average rate of interest earned by the Fund, which varies depending on prevailing market interest rates.

Note 5 Capital Assets

Capital assets are comprised of the following:

	1997		1996
	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	\$62,187	\$ 55,630	\$ 6,557
Historical assets ^(a)	3,218	-	3,218
	<u>\$65,405</u>	<u>\$ 55,630</u>	<u>\$ 9,775</u>
			<u>\$12,889</u>

(a) Historical assets are comprised of paintings, sketches, photographs and books of historical interest to the Province of Alberta. The book collection is recorded at a nominal value because a fair value is not reasonably determinable.

(b) The following are the major historical asset disposals in the year:

(i) The James Marshall Collection of drawings - donated to the Medicine Hat Museum and Art Gallery, and

(ii) Lethbridge Fire Hall #1 - sold to a local developer for \$1 with an agreement that the developer will restore and maintain the historical integrity of the building.

Note 6 Restricted Funds

Restricted funds consist of the following balances:

	1997	1996
Western Heritage Centre fund ^(a)	\$ 555,979	\$ 1,905,390
Roger Soderstrom Fellowship fund ^(b)	29,590	30,835
Capital projects fund ^(c)	2,218	5,416
	<u>\$ 587,787</u>	<u>\$ 1,941,641</u>

(a) The Western Heritage Centre fund was to be paid to the Western Heritage Centre Society (the "Society") as it raised matching funds. The Society has been paid the full amount owed to it. The balance held by the Foundation consists of interest accumulated on the funds received from the Lottery Fund and will be returned to the Lottery Fund, or be used for other purposes with the prior approval of the Minister charged with the administration of the Lottery Fund.

(b) The Roger Soderstrom Fellowship fund is for fellowships in historical resources preservation.

(c) The capital projects fund is for constructing exhibits and restoring artifacts at the Reynolds Alberta Museum and the Remington Alberta Carriage Centre.

Note 7 Reserve

The reserve has been established from the operating fund for the purpose of retaining an ongoing funding capability. The interest earned on the reserve is credited to operating revenue.

The reserve funds are held as part of the cash appropriated for non-current uses.

Note 8 Commitments

At the year end, the Foundation had the following grant commitments:

Grants:	
Historical resources preservation ^(a)	\$ 1,290,000
Heritage awareness ^(a)	504,000
Main Street program ^(b) :	
For 1997-98	413,000
For 1998-99	163,000
For 1999-2000	30,000
	<u>\$ 2,400,000</u>

(a) These commitments are for grants approved as at March 31, 1997 but not disbursed because certain conditions were still to be met by applicants.

(b) These are contractual commitments to pay the grant amounts in the periods indicated, subject to satisfactory progress of the projects.

Note 9 Honoraria, Salaries, Wages and Benefits

Honoraria, salaries, wages and benefits are comprised of the following:

	1997				1996	
	Number of Individuals	Salaries and Wages ^(a)	Benefits ^(b)	Total	Number of Individuals	Total
Chairman of the Board	1	\$ 588	\$ -	\$ 588	1	\$ 484
Other directors	9	-	-	-	9	476
Board honoraria	10	588	-	588	10	960
	<u>Full-time Equivalents</u>				<u>Full-time Equivalents</u>	
Salaried employees ^(c) (average 1997 \$39,320, 1996 \$43,998)	3	91,711	26,249	117,960	2	87,996
Non-salaried employees		-	-	-		25,749
		91,711	26,249	117,960		113,745
Increase (decrease) in accrued vacation pay		34	-	34		236
Salaries, wages and benefits		91,745	26,249	117,994		113,981
		<u>\$92,333</u>	<u>\$26,249</u>	<u>\$118,582</u>		<u>\$114,941</u>

(a) Salaries and wages include regular pay, bonuses, overtime, lump sum payments, honoraria and any other direct cash remuneration.

(b) Benefits include the employer's share of all employee benefits and contributions or payments made on behalf of employees including health care, dental coverage, group life insurance, accidental disability and dismemberment insurance, long and short-term disability plans, professional memberships, tuition fees and vacation payouts.

(c) Senior management staff are employees of the Department of Community Development. Information on their salaries and benefits, required under Treasury Board Directive 01/94, as amended, will be included with information on the salaries and benefits of staff of the Department of Community Development in Volume 2 of the 1995-96 Public Accounts of the Province of Alberta.

Note 10 Budget

The Foundation's budget was approved by the Board of the Foundation on September 27, 1996.

Note 11 Approval of Financial Statements

These financial statements were approved by management and recommended for approval by the Board.

ALBERTA SPORT, RECREATION, PARKS AND WILDLIFE FOUNDATION
FINANCIAL STATEMENTS
MARCH 31, 1997

Auditor's Report
Balance Sheet
Statement of Revenue, Expenditure and Changes in Fund Balances
Statement of Changes in Financial Position
Notes to the Financial Statements

AUDITOR'S REPORT

To the Members of the
Alberta Sport, Recreation, Parks and Wildlife Foundation

I have audited the balance sheet of the Alberta Sport, Recreation, Parks and Wildlife Foundation as at March 31, 1997 and the statements of revenue, expenditure and changes in fund balances, and changes in financial position for the year then ended. These financial statements are the responsibility of the Foundation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
May 7, 1997

ALBERTA SPORT, RECREATION, PARKS AND WILDLIFE FOUNDATION
BALANCE SHEET
AS AT MARCH 31, 1997

	1997	1996
ASSETS		
Current:		
Cash and short-term investments (Note 3)	\$ 6,416,664	\$ 6,782,953
Accounts receivable	111,314	174,765
Prepaid expenses and inventory	124,463	43,238
	<u>6,652,441</u>	<u>7,000,956</u>
Investments (Note 3)	1,448,418	1,399,723
Capital assets (Note 4)	1,931,269	1,471,121
	<u>\$ 10,032,128</u>	<u>\$ 9,871,800</u>
LIABILITIES AND FUND BALANCES		
Current:		
Grants and accounts payable	\$ 104,250	\$ 267,124
Fund balances:		
Operating	1,295,403	1,562,224
Endowment	1,448,418	1,399,723
Restricted	3,242,306	2,696,949
	<u>5,986,127</u>	<u>5,658,896</u>
Reserves (Note 5)	3,941,751	3,945,780
	<u>\$ 10,032,128</u>	<u>\$ 9,871,800</u>

The accompanying notes are part
of these financial statements.

ALBERTA SPORT, RECREATION, PARKS AND WILDLIFE FOUNDATION
STATEMENT OF REVENUE, EXPENDITURE AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 1997

	1997				1996	
	Operating Fund	Endowment Fund	Restricted Fund	Total Actual	Budget (Note 11)	Total Actual
Revenue:						
Contributions:						
Lottery Fund	\$14,885,000	\$ -	\$ -	\$14,885,000	\$14,885,000	\$14,885,000
Donations	817,370	44,666	842,901	1,704,937	1,750,000	1,250,759
Alberta Foundation for the Arts	103,950	-	-	103,950	125,000	162,500
Percy Page Centre sales (Note 6)	667,023	-	-	667,023	650,000	618,590
Investment income	212,947	-	134,330	347,277	400,000	594,498
Registration fees and charges	231,077	-	-	231,077	272,000	450,260
	<u>16,917,367</u>	<u>44,666</u>	<u>977,231</u>	<u>17,939,264</u>	<u>18,082,000</u>	<u>17,961,607</u>
Expenditure:						
Program grants	14,766,323	-	431,874	15,198,197	15,590,900	14,332,736
Program delivery costs	891,130	-	-	891,130	1,197,100	1,168,298
Percy Page Centre costs (Note 6)	691,660	-	-	691,660	625,000	686,423
Alberta Sports Hall of Fame and Museum costs	160,102	-	-	160,102	150,000	154,029
Administration	411,453	-	-	411,453	450,000	474,972
Public relations, promotion and fund raising	201,520	-	-	201,520	232,000	258,568
Employee severance costs	62,000	-	-	62,000	-	116,752
	<u>17,184,188</u>	<u>-</u>	<u>431,874</u>	<u>17,616,062</u>	<u>18,245,000</u>	<u>17,191,778</u>
Excess (deficiency) of revenue over expenditure	(266,821)	44,666	545,357	323,202	(163,000)	769,829
Interfund transfers	(4,029)	4,029	-	-	-	-
Changes in fund balances	(270,850)	48,695	545,357	323,202	(163,000)	769,829
Transfer from (to) reserve	4,029	-	-	4,029	100,000	(435,338)
Fund balances at beginning of year	1,562,224	1,399,723	2,696,949	5,658,896	5,279,000	5,324,405
Fund balances at end of year	<u>\$ 1,295,403</u>	<u>\$1,448,418</u>	<u>\$3,242,306</u>	<u>\$ 5,986,127</u>	<u>\$ 5,216,000</u>	<u>\$ 5,658,896</u>

ALBERTA SPORT, RECREATION, PARKS AND WILDLIFE FOUNDATION
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997

	1997		1996
	Budget	Actual	Actual
	(Note 11)		
Cash provided by (used in):			
Operating activities:			
Excess (deficiency) of revenue over expenditure	\$ (163,000)	\$ 323,202	\$ 769,829
Amortization	50,000	67,593	46,207
Donations-in-kind	-	228,498	-
	(113,000)	619,293	816,036
Net change in non-cash working capital	-	(180,648)	(97,274)
	(113,000)	438,645	718,762
Investing activities:			
Purchase of investments	-	(48,695)	(336,608)
Acquisition of capital assets:			
By donation	-	(175,445)	(144,875)
By purchase	(30,000)	(580,794)	(201,460)
	(30,000)	(804,934)	(682,943)
(Decrease) increase in cash and short-term investments	(143,000)	(366,289)	35,819
Cash and short-term investments at beginning of year	7,008,000	6,782,953	6,747,134
Cash and short-term investments at end of year	<u>\$ 6,865,000</u>	<u>\$ 6,416,664</u>	<u>\$ 6,782,953</u>

ALBERTA SPORT, RECREATION, PARKS AND WILDLIFE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997

Note 1 Authority and Purpose

The Alberta Sport, Recreation, Parks and Wildlife Foundation (the "Foundation") operates under the authority of the Alberta Sport, Recreation, Parks and Wildlife Foundation Act, Chapter A-37.6, Statutes of Alberta 1994, as a Crown corporation for the purpose of enhancement of sport, recreation, parks and wildlife programs for all Albertans. The Foundation is not taxable under the Income Tax Act of Canada.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Fund Accounting

Transactions are grouped, for accounting and reporting purposes, into funds in accordance with specified activities or objectives. These funds are described as follows:

- The operating fund accounts for revenue and expenditure associated with the primary activities of the Foundation.
- The endowment fund accounts for contributions received under various agreements with sponsors and/or matching funds provided by the Foundation. Interest earned on the existing endowments can only be used to fund specific athletes and athletic activities, and are therefore recorded as part of the restricted fund. The principal must remain intact.
- The restricted fund accounts for interest earned on endowments and contributions received for which donors have specified the purpose.

(b) Revenue and Other Contributions

Revenue for provision of goods and services is recognized in the period in which the goods are provided or the services rendered.

Unrestricted contributions are recognized as revenue in the period receivable.

Endowment contributions are recognized as revenue of the endowment fund when receivable.

Restricted contributions and interest income that is restricted, are recognized as revenue of the restricted fund when receivable.

Cash donations are reported when received. Donations of materials and services are recorded at fair market value, provided such materials and services would be purchased and paid for by the Foundation if not received as donations.

(c) Grants Payable

Liabilities are recorded for grants payable only when all the conditions required to qualify for the grants have been met by the grant recipients.

(d) Capital Assets

Capital assets acquired by the Foundation are recorded at cost. For capital assets donated to the Foundation, cost is determined as the fair market value at date of donation. Capital assets are shown net of amortization, which is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Equipment	5 years
Furniture	10 years
Leasehold improvements	5 years

Note 3 Cash, Short-Term Investments and Investments

Cash, short-term investments and investments are comprised of interest bearing deposits with the Alberta Treasury Branches, the Consolidated Cash Investment Trust Fund of the Province of Alberta (the "Fund") and Canadian chartered banks.

The Fund is invested primarily in securities maturing in less than one year which are either issued or guaranteed by the Canadian federal and provincial governments, deposits given by or guaranteed by chartered banks, or short-term investment grade quality notes of Canadian corporations. Interest is earned on the daily cash balance at the average rate of earnings of the Fund which varies depending on prevailing market interest rates.

Note 4 Capital Assets

	1997		1996	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
For administrative use:				
Furniture and equipment	\$ 292,229	\$ 111,516	\$ 180,713	\$ 229,767
Leasehold improvements	19,642	10,958	8,684	12,612
	<u>311,871</u>	<u>122,474</u>	<u>189,397</u>	<u>242,379</u>
Land and building for program use:				
Day lodge - construction in progress	204,072	-	204,072	179,942
Land, use restricted by donors	1,391,500	-	1,391,500	902,500
Land, unrestricted	146,300	-	146,300	146,300
	<u>1,741,872</u>	<u>-</u>	<u>1,741,872</u>	<u>1,228,742</u>
	<u>\$ 2,053,743</u>	<u>\$ 122,474</u>	<u>\$ 1,931,269</u>	<u>\$ 1,471,121</u>

Note 5 Reserves

Reserves are summarized as follows:

	1997	1996
Quarterly grants	\$ 497,694	\$ 497,694
Canada Games	405,886	405,886
Endowment donations matching program	2,538,171	2,542,200
Alberta Sports Hall of Fame and Museum	500,000	500,000
	<u>\$ 3,941,751</u>	<u>\$ 3,945,780</u>

The Foundation provides funding on a province-wide basis under the Quarterly Grants program. Because applications to the program are not received on a regular basis and review and evaluation is a continuing process, the Board has approved a policy to carry forward approved, but uncommitted funds, to future periods by transfer from the operating fund to the reserve.

In addition, the Foundation provides funding for Alberta Games and for Canada Games, some of which occur every other year and some every four years. Net assets are set aside by management in non-game years to meet financial requirements in years in which games are held. Net assets are also set aside to match corporate and individual contributions towards endowments.

The Board of the Foundation has set aside \$500,000 in support of a fundraising effort to build an Alberta Sports Hall of Fame and Museum in the City of Red Deer. The future release of these funds is conditional upon the firm acquisition of a site and the raising of donations sufficient to build and operate the facility.

Note 6 Percy Page Centre

The Foundation operates the Percy Page Centre, Edmonton, to provide accommodation and office services to non-profit organizations. These organizations are charged for their use of office equipment, supplies and print shop facilities.

Note 7 Expenditures

Expenditures are summarized by object as follows:

	1997	1996
Grants	\$ 15,198,197	\$ 14,332,736
Supplies and services	1,296,387	1,399,780
Salaries, wages and benefits (Note 8)	991,885	1,296,303
Amortization	67,593	46,207
Employee severance costs	62,000	116,752
	<u>\$ 17,616,062</u>	<u>\$ 17,191,778</u>

Note 8 Salaries, Wages and Benefits

Salaries, wages and benefits are comprised of the following:

	1997				1996	
	Full Time Equivalents ⁽¹⁾	Salary ⁽²⁾	Benefits and Allowances ⁽³⁾	Total	Full Time Equivalents ⁽¹⁾	Total
Chairman of the Board	1.0	\$ 5,608	\$ -	\$ 5,608	1.0	\$ 8,860
Board members	9.0	6,179	-	6,179	9.0	-
	<u>10.0</u>	<u>11,787</u>	<u>-</u>	<u>11,787</u>	<u>10.0</u>	<u>8,860</u>
General Manager	1.0	77,832	14,504	92,336	1.0	85,259
Managers:						
Program Services	1.0	68,463	2,376	70,839	1.5	102,415
Special Projects	1.0	56,910	11,528	68,438	1.0	76,869
Marketing	1.0	55,110	11,038	66,148	1.0	72,285
Other salaried staff:						
Professional and technical (average 1997 \$44,231, 1996 \$44,092)	12.0	465,020	65,752	530,772	16.5	727,514
Secretarial and support (average 1997 \$27,203, 1996 \$29,961)	5.0	124,015	12,001	136,016	6.0	179,765
Non-salaried staff ⁽⁴⁾		15,549	-	15,549		43,336
		<u>862,899</u>	<u>117,199</u>	<u>980,098</u>		<u>1,287,443</u>
Total (Note 7)		<u>\$874,686</u>	<u>\$ 117,199</u>	<u>\$991,885</u>		<u>\$ 1,296,303</u>

(1) The Chairman of the Board and Board Members are counts of the actual individuals.

(2) Salary includes regular base pay, bonuses, overtime, lump sum payments, honoraria and any other direct cash remuneration.

(3) Benefits and Allowances include the employer's share of all employee benefits including health care, group life plan, health club memberships, and contributions to individual employee controlled Registered Retirement Savings Plans.

(4) Non-salaried staff includes all wage staff and others remunerated on an hourly basis.

Note 9 Fund Held on Behalf of Others

The Foundation holds \$50,000 which is repayable to the contributor on twelve months notice. Interest earned on this amount is included in the restricted fund and can only be used to fund athletes and athletic activities.

Note 10 Supplies, Services and Accommodation

Accommodations, basic office furnishings and certain other administration costs totalling approximately \$600,000 are provided by the Province of Alberta, General Revenue Fund, and accordingly, these costs are not reflected in these financial statements.

Note 11 Budget

	Operating Fund	Endowment Fund	Restricted Fund	Total
Revenue	\$ 17,732,000	\$ 100,000	\$ 250,000	\$ 18,082,000
Expenditure	18,170,000	-	75,000	18,245,000
Excess (deficiency) of revenue over expenditure	(438,000)	100,000	175,000	(163,000)
Interfund transfers	(100,000)	100,000	-	-
Changes in fund balances	(538,000)	200,000	175,000	(163,000)
Transfer from reserve	100,000	-	-	100,000
Fund balances at beginning of year	1,173,900	1,708,100	2,397,000	5,279,000
Fund balances at end of year	<u>\$ 735,900</u>	<u>\$ 1,908,100</u>	<u>\$ 2,572,000</u>	<u>\$ 5,216,000</u>

The budget for the year ended March 31, 1997 was approved by the Board of Directors on March 22, 1996.

Note 12 Commitments

At March 31, 1997, the Foundation had commitments under various grant programs amounting to \$748,000 (1996 \$169,500).

Also, future payments required under operating leases and maintenance agreements for office equipment are as follows:

1997-98	\$ 129,297
1998-99	129,297
1999-2000	98,374
2000-2001	67,430
	<u>\$ 424,398</u>

Note 13 Subsequent Events

During the fiscal year the Minister decided that, effective April 1, 1997, the Financial and Administrative services of the Foundation would be managed and operated by the Department of Community Development. As a result of this decision, approximately \$19,000 will be paid in employee severance costs. This amount is subject to Board approval.

Effective April 1, 1997, the Alberta Sports Hall of Fame and Museum began operating as a separate entity. Capital assets with a cost of \$65,840 were transferred by the Foundation to the new entity.

Note 14 Comparative Figures

Certain 1996 figures have been reclassified to conform to 1997 presentation.

Note 15 Approval of Financial Statements

These financial statements were approved by the Board of Directors.

THE GOVERNMENT HOUSE FOUNDATION
FINANCIAL STATEMENTS
MARCH 31, 1997

Auditor's Report
Balance Sheet
Statement of Operations
Statement of Equity in Artworks and Collections
Statement of Changes in Financial Position
Notes to the Financial Statements

AUDITOR'S REPORT

To the Directors of The Government
House Foundation

I have audited the balance sheet of The Government House Foundation as at March 31, 1997 and the statements of operations, equity in artworks and collections, and changes in financial position for the year then ended. These financial statements are the responsibility of the Foundation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
June 13, 1997

THE GOVERNMENT HOUSE FOUNDATION
BALANCE SHEET
AS AT MARCH 31, 1997

	1997	1996
ASSETS		
Current:		
Cash (Note 3)	\$ 71,002	\$ 72,506
Accounts receivable	90	23
Prepaid expense	-	72
	<u>71,092</u>	<u>72,601</u>
Artworks and collections (Note 4):		
Purchased	552,299	531,399
Donated	219,101	210,141
	<u>771,400</u>	<u>741,540</u>
	<u>\$ 842,492</u>	<u>\$ 814,141</u>
LIABILITIES AND EQUITY		
Current:		
Accounts payable	\$ 649	\$ 300
Equity in artworks and collections	771,400	741,540
Fund balance	70,443	72,301
	<u>\$ 842,492</u>	<u>\$ 814,141</u>

The accompanying notes are part
of these financial statements.

THE GOVERNMENT HOUSE FOUNDATION
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
	Budget	Actual
	(Note 5)	Actual
REVENUES		
Grant from the General Revenue Fund, Ministry of Community Development	\$ 25,000	\$ 25,000
Interest	-	4,145
	<u>25,000</u>	<u>29,145</u>
EXPENSES		
Secretarial services	3,500	3,600
Office supplies and other	800	1,628
Board meetings	1,000	1,576
Restoration, mounting and framing	2,000	1,066
Public relations	1,500	1,005
Professional fees	600	922
Insurance - Board members	-	219
Miscellaneous	-	87
	<u>9,400</u>	<u>10,103</u>
Excess of revenues over expenses for the year	15,600	19,042
Purchases of artworks and collections transferred to equity in artworks and collections	(30,000)	(20,900)
Change in fund balance during the year	<u>\$ (14,400)</u>	<u>(1,858)</u>
Fund balance at beginning of year		72,301
Fund balance at end of year		<u>\$ 70,443</u>

THE GOVERNMENT HOUSE FOUNDATION
STATEMENT OF EQUITY IN ARTWORKS AND COLLECTIONS
FOR THE YEAR ENDED MARCH 31, 1997

	1997		1996
	Budget	Actual	Actual
	(Note 5)		
Equity in artworks and collections at beginning of year		\$ 741,540	\$ 738,612
Add acquisitions:			
Purchases	<u>\$ 30,000</u>	20,900	5,078
Donations		8,960	-
		<u>771,400</u>	<u>743,690</u>
Deduct cost of artworks donated to the Alberta Foundation for the Arts, a related party		-	(2,150)
Equity in artworks and collections at end of year		<u>\$ 771,400</u>	<u>\$ 741,540</u>

THE GOVERNMENT HOUSE FOUNDATION
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997

	1997		1996
	Budget	Actual	Actual
	(Note 5)		
Operating activities:			
Excess of revenues over expenses for the year	\$ 15,600	\$ 19,042	\$ 22,729
Decrease in non-cash working capital	-	354	295
Cash provided by operating activities	<u>15,600</u>	<u>19,396</u>	<u>23,024</u>
Investing activities:			
Acquisitions of artworks and collections	(30,000)	(29,860)	(5,078)
Artworks donated to the Alberta Foundation for the Arts, a related party	-	-	2,150
Cash used in investing activities	<u>(30,000)</u>	<u>(29,860)</u>	<u>(2,928)</u>
Financing activity -			
Donations of artworks and collections	-	8,960	(2,150)
Increase (decrease) in cash during the year	<u>(14,400)</u>	<u>(1,504)</u>	<u>17,946</u>
Cash at beginning of year	72,506	72,506	54,560
Cash at end of year	<u>\$ 58,106</u>	<u>\$ 71,002</u>	<u>\$ 72,506</u>

THE GOVERNMENT HOUSE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997

Note 1 Authority and Objectives

The Government House Foundation (the "Foundation") operates as a non-profit entity under the authority of the Government House Act, Chapter G-7, Revised Statutes of Alberta 1980.

The objectives of the Foundation are:

- to advise the Minister on the preservation of Government House as an historic site and building;
- to inform and stimulate the interest of the public in the historical and architectural development of Government House; and
- to solicit and receive, by gift, bequest, devise, transfer or otherwise any personal property for use or display in Government House.

The Foundation is a crown agent of the Government of Alberta and as such has a tax exempt status.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Revenue Recognition

Operating grants are recognized in the period when receivable.

Donated artworks and collections are recorded as direct increases in equity in artworks and collections at appraised values as at acquisition dates.

(b) Artworks and Collections

Purchased artworks and collections are recorded at cost. Artworks and collections are not amortized. Proceeds from the sale of artworks and collections can only be used to acquire other items to be added to the artworks and collections or for the direct care of existing artworks and collections.

Note 3 Cash

Cash consists of deposits in the Consolidated Cash Investment Trust Fund (the "Fund") of the Province of Alberta. The Fund is being managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of five years. The Foundation earns interest on its daily cash balance at the average rate of interest earned by the Fund, which varies depending on prevailing market interest rates.

Note 4 Artworks and Collections

Artworks and collections consist of paintings, drawings, prints, sculptures, furnishings, books and silverware that pertain to the history of Government House and are used or displayed in Government House.

Note 5 Budget

The budget was approved by the Board of Directors on September 17, 1996.

Note 6 Salaries and Benefits

The Foundation has no salaries or benefits to report under Treasury Board Directive 11/95 because:

- it did not pay honoraria to its directors, and
- it has no employees.

Note 7 Approval of Financial Statements

These financial statements were approved by management and the Chairman of the Foundation.

HUMAN RIGHTS, CITIZENSHIP AND MULTICULTURALISM EDUCATION FUND
(formerly, Alberta Multiculturalism Fund)
FINANCIAL STATEMENTS
MARCH 31, 1997

Auditor's Report

Balance Sheet

Statement of Revenues, Expenses and Fund Balance

Statement of Changes in Financial Position

Notes to the Financial Statements

AUDITOR'S REPORT

To the Minister of Community Development

I have audited the balance sheet of the Human Rights, Citizenship and Multiculturalism Education Fund (formerly, Alberta Multiculturalism Fund) as at March 31, 1997 and the statements of revenues, expenses and fund balance, and changes in financial position for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting as described in Note 2 to the financial statements.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
June 13, 1997

HUMAN RIGHTS, CITIZENSHIP AND MULTICULTURALISM EDUCATION FUND
(formerly, Alberta Multiculturalism Fund)
BALANCE SHEET
AS AT MARCH 31, 1997

	1997	1996
ASSETS		
Current assets:		
Cash (Note 4)	\$ 1,613,264	\$ 1,399,846
Accounts receivable	316	328
	<u>1,613,580</u>	<u>1,400,174</u>
Cash appropriated for non-current use (Notes 4 and 5)	1,450,000	1,450,000
	<u><u>\$ 3,063,580</u></u>	<u><u>\$ 2,850,174</u></u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 135,321	\$ 47,389
Grants payable	-	87,375
	<u>135,321</u>	<u>134,764</u>
Equity:		
General reserve (Note 5)	1,450,000	1,450,000
Fund balance	1,478,259	1,265,410
	<u>2,928,259</u>	<u>2,715,410</u>
	<u><u>\$ 3,063,580</u></u>	<u><u>\$ 2,850,174</u></u>

The accompanying notes are part
of these financial statements.

HUMAN RIGHTS, CITIZENSHIP AND MULTICULTURALISM EDUCATION FUND
(formerly, Alberta Multiculturalism Fund)
STATEMENT OF REVENUES, EXPENSES AND FUND BALANCE
FOR THE YEAR ENDED MARCH 31, 1997

	1997		1996
	Budget (Note 6)	Actual	Actual
REVENUES			
Contributions from the Lottery Fund, a related party	\$ 1,062,000	\$ 1,062,000	\$ 2,125,000
Interest	90,000	136,264	183,932
Sales and fees	35,000	24,984	43,681
	<u>1,187,000</u>	<u>1,223,248</u>	<u>2,352,613</u>
EXPENSES (Note 3)			
Grants (Note 7)	700,000	624,453	1,219,699
Professional, technical and contracted services	300,000	308,480	421,092
Travel	57,000	30,177	45,491
Materials and supplies	16,000	28,660	21,806
Freight, postage and telephone	5,000	9,317	6,848
Hosting	5,000	4,506	426
Rentals, repairs and maintenance	1,500	3,668	11,050
Honoraria to Advisory Committee members (Note 8)	-	1,035	-
Promotion and communications	7,500	-	7,706
Miscellaneous	-	103	548
	<u>1,092,000</u>	<u>1,010,399</u>	<u>1,734,666</u>
Excess of revenues over expenses for the year	95,000	212,849	617,947
Fund balance at beginning of year	2,384,000	1,265,410	647,463
Fund balance at end of year	<u>\$ 2,479,000</u>	<u>\$ 1,478,259</u>	<u>\$ 1,265,410</u>

HUMAN RIGHTS, CITIZENSHIP AND MULTICULTURALISM EDUCATION FUND
(formerly, Alberta Multiculturalism Fund)
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997

	1997		1996
	Budget (Note 6)	Actual	Actual
Operating activities:			
Excess of revenues over expenses	\$ 95,000	\$ 212,849	\$ 617,947
Decrease (increase) in non-cash working capital	-	569	(133,073)
Cash provided by operating activities	<u>\$ 95,000</u>	<u>213,418</u>	<u>484,874</u>
Cash at beginning of year		1,399,846	914,972
Cash at end of year		<u>\$ 1,613,264</u>	<u>\$ 1,399,846</u>

HUMAN RIGHTS, CITIZENSHIP AND MULTICULTURALISM EDUCATION FUND
(formerly, Alberta Multiculturalism Fund)
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997

Note 1 Authority and Purpose

The Alberta Multiculturalism Fund was continued as the Human Rights, Citizenship and Multiculturalism Education Fund (the "Fund") on July 15, 1996. The Fund operates under the authority of the Human Rights, Citizenship and Multiculturalism Act, Chapter H-11.7, Revised Statutes of Alberta 1980.

The purpose of the Fund is to promote equality, increase understanding and acceptance of Alberta's diverse racial and cultural composition, and inform Albertans about their rights and responsibilities under the Human Rights, Citizenship and Multiculturalism Act.

The Fund is owned by the Crown in right of Alberta and is not subject to taxation.

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements have been prepared in accordance with generally accepted accounting principles except that salaries, accommodation and other overhead costs, incurred in the administration and operation of the Fund by the Citizenship Services Branch of the Department of Community Development, and the Department of Public Works, Supply and Services have not been included in the Fund's expenses. These costs are incurred and recorded by the General Revenue Fund of the Province of Alberta, Departments of Community Development and Public Works, Supply and Services.

Note 3 Administration Costs

Salaries, accommodation and other overhead costs, estimated to be approximately \$750,000, incurred in the administration and operation of the Fund by the Citizenship Services Branch of the Department of Community Development, and the Department of Public Works, Supply and Services have not been included in the Fund's expenses. These costs are incurred and recorded by the General Revenue Fund of the Province of Alberta, Departments of Community Development and Public Works, Supply and Services.

Note 4 Cash

Cash consists of deposits in the Consolidated Cash Investment Trust Fund ("CCITF") of the Province of Alberta. CCITF is being managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of five years. The Fund earns interest on its daily cash balance at the average rate of interest earned by CCITF, which varies depending on prevailing market interest rates.

Note 5 General Reserve

The general reserve is not available for operations without authorization of the Treasury Board. The reserve is maintained for the purpose of retaining an ongoing funding capability. Interest earned on the cash appropriated for the reserve is reported as operating revenue.

Note 6 Budget

The 1997 budget for revenues, grants and total expenses agrees with the 1996-97 Government Estimates. The additional budget information in the statement of revenues, expenses and fund balance and in Note 7 has been provided by management and reconciles to the 1996-97 Government Estimates.

Note 7 Grant Expenses

Grants are provided to individuals and organizations which have the potential of assisting the Fund in meeting the goals identified in the Alberta Multiculturalism Commission's three year strategic plan, "Multiculturalism ... The Next Step".

The grants are paid under the following program categories:

	1997		1996
	Budget (Note 6)	Actual	Actual
Education program:(a)			
Citizenship	\$ -	\$ 90,070	\$ -
Multiculturalism	-	69,443	-
Human rights	-	33,240	-
Racism projects(b)	240,000	170,700	147,840
Valuing diversity(c)	230,000	151,000	359,899
Community leadership:(d)			
Project assistance	180,000	60,000	451,935
Heritage languages	-	-	202,525
Fathers of Confederation(e)	50,000	50,000	50,000
Special projects	-	-	7,500
	<u>\$ 700,000</u>	<u>\$ 624,453</u>	<u>\$ 1,219,699</u>

- (a) All grants made after the Fund was continued on July 15, 1996 are made under the education program. The racism projects, valuing diversity and community leadership programs were discontinued on July 15, 1996.
- (b) Racism project grants assisted public institutions, businesses, industries and organizations to develop projects which were aimed at eliminating racism and discrimination in Alberta.
- (c) Valuing diversity grants assisted public institutions, businesses, industries and organizations to develop projects which enhanced the understanding, appreciation and commitment by Albertans to the benefits and positive values of a culturally diverse society.
- (d) Community leadership grants consist of project assistance grants which were made to Albertans to assist in monitoring community leadership and self-sufficiency in diversity, planning and programming. The Heritage languages support program ended in 1995-96.
- (e) The Fathers of Confederation grant is made annually on behalf of the Government of Alberta to the Confederation Centre of the Arts in Charlottetown, Prince Edward Island.

Note 8 Honoraria, Salaries, Wages and Benefits

	1997				1996	
	Number of Individuals(a)	Salaries and Wages(b)	Benefits(c)	Total	Number of Individuals	Total
Chairperson of the Advisory Committee ^(d)	1	\$ -	\$ -	\$ -	1	\$ -
Other members	7	1,035	-	1,035	9	-
Honoraria to Advisory Committee members	<u>8</u>	<u>\$ 1,035</u>	<u>\$ -</u>	<u>\$ 1,035</u>	<u>10</u>	<u>\$ -</u>

- (a) The Fund has no employees. The salaries and benefits of the employees of the Department of Community Development who administer the Fund are paid and reported by that Department (see Note 3). Information on the salaries and benefits of this staff, requirement under Treasury Board Directive 01/94, as amended, is included with information on the salaries and benefits of the staff of the Department of Community Development in Volume 2 of the 1996-97 Public Accounts of the Province of Alberta.
- (b) Salaries and wages include regular pay, bonuses, overtime, lump sum payments, honoraria and any other direct cash remuneration.
- (c) No benefits were provided to the Advisory Committee members.
- (d) The Chairperson of the Advisory Committee to the Minister of Community Development, on allocating Fund resources, is a Member of the Legislative Assembly and is not compensated by the Fund.

Note 9 Commitments

At March 31, 1997, the Commission had contractual commitments totalling \$22,500.

Note 10 Approval of Financial Statements

These financial statements have been approved by management.

THE WILD ROSE FOUNDATION
FINANCIAL STATEMENTS
MARCH 31, 1997

Auditor's Report
Balance Sheet
Statement of Revenue, Expenditure and Accumulated
Excess of Revenue Over Expenditure
Statement of Changes in Financial Position
Notes to the Financial Statements
Schedule of Other Expenditure Initiatives, Net
Schedule of Administrative Expenditure
Schedule of Salaries, Benefits and Allowances

AUDITOR'S REPORT

To the Members of The Wild Rose Foundation

I have audited the balance sheet of The Wild Rose Foundation as at March 31, 1997 and the statements of revenue, expenditure and accumulated excess of revenue over expenditure, and changes in financial position for the year then ended. These financial statements are the responsibility of the Foundation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
June 9, 1997

THE WILD ROSE FOUNDATION
BALANCE SHEET
AS AT MARCH 31, 1997

	1997	1996
ASSETS		
Current assets:		
Cash (Note 3)	\$ 3,782,647	\$ 3,300,624
Accounts receivable	11,067	9,041
Prepaid expenses	12,208	21,940
	<u>3,805,922</u>	<u>3,331,605</u>
Investment (Note 3)	6,500,000	6,500,000
Capital assets (Note 4)	14,537	28,655
	<u>\$ 10,320,459</u>	<u>\$ 9,860,260</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 92,375	\$ 77,594
Grants payable	1,667,941	1,460,130
Deferred contributions	218,218	14,406
Due to the Province of Alberta	-	8,284
	<u>1,978,534</u>	<u>1,560,414</u>
Pension liability (Note 5)	41,943	48,000
	<u>2,020,477</u>	<u>1,608,414</u>
Equity:		
Endowment fund (Note 6)	6,500,000	6,500,000
Accumulated excess of revenue over expenditure	1,799,982	1,751,846
	<u>8,299,982</u>	<u>8,251,846</u>
	<u>\$ 10,320,459</u>	<u>\$ 9,860,260</u>

The accompanying notes and schedules
are part of these financial statements.

THE WILD ROSE FOUNDATION
STATEMENT OF REVENUE, EXPENDITURE AND ACCUMULATED
EXCESS OF REVENUE OVER EXPENDITURE
FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
	Budget (Note 10)	Actual
REVENUE		Actual
Lottery Fund of the Province of Alberta	\$6,600,000	\$6,600,000
Canadian International Development Agency of the Government of Canada (Note 7)	-	14,000
Interest	502,000	447,040
	<u>7,102,000</u>	<u>7,267,148</u>
EXPENDITURE		
Support to Alberta non-profit organizations, net (Note 8)	4,500,000	4,490,048
Other expenditure:		
International Development Program, net (note 9)	1,600,000	1,208,030
International Association for Volunteer Effort (Note 7)	-	133,671
Other initiatives, net, Schedule 1	500,000	328,525
Administrative, Schedule 2	774,965	852,630
	<u>2,874,965</u>	<u>2,522,856</u>
	<u>7,374,965</u>	<u>7,012,904</u>
Excess (deficiency) of revenue over expenditure for the year	<u>\$ (272,965)</u>	48,136
Accumulated excess of revenue over expenditure at beginning of year		1,751,846
Accumulated excess of revenue over expenditure at end of year	<u>\$ 1,799,982</u>	<u>1,298,448</u>
		<u>\$ 1,751,846</u>

THE WILD ROSE FOUNDATION
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
Operating activities:		
Excess of revenue over expenditure for the year	\$ 48,136	\$ 453,398
Add (deduct) items not affecting cash:		
Amortization of capital assets	16,625	18,559
Loss on disposal of capital assets	763	-
Increase (decrease) in pension plan obligation	(6,057)	4,000
	<u>59,467</u>	<u>475,957</u>
Changes in non-cash working capital balances relating to operations:		
Accounts receivable	(2,026)	133,104
Prepaid expenses	9,732	833
Grants payable	207,811	1,159,126
Accounts payable	14,781	28,717
Deferred contributions	203,812	-
Due to the Province of Alberta	(8,284)	(94,674)
Cash provided by operations	<u>485,293</u>	<u>1,703,063</u>
Investing activities:		
Purchase of capital assets	(5,000)	(7,000)
Proceeds from sale of capital assets	1,730	-
Cash used in investing activities	<u>(3,270)</u>	<u>(7,000)</u>
Increase in cash	482,023	1,696,063
Cash at beginning of year	3,300,624	1,604,561
Cash at end of year	<u>\$ 3,782,647</u>	<u>\$ 3,300,624</u>

THE WILD ROSE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997

Note 1 Authority and Purpose

The Wild Rose Foundation operates under the authority of the Wild Rose Foundation Act, Chapter W-7.8, Statutes of Alberta 1984, as amended.

The purposes of the Foundation are:

- (a) to provide funding to volunteer non-profit organizations that provide valuable services to Albertans;
- (b) to foster or promote the use of volunteers or to assist those who volunteer or use the services of volunteers in Alberta; and
- (c) to foster or promote charitable, philanthropic, humanitarian, or public spirited acts or to assist those who perform them.

The Foundation is a crown agent of the Government of Alberta and as such has a tax exempt status.

Note 2 Significant Accounting Policies

(a) Grants

Liabilities are recorded for grants payable only when all conditions required to qualify for the grants have been met by the grant recipients.

The recovery of grants made in prior years is recorded in the year that the Foundation determines that a portion of grants previously made will be recovered.

(b) Amortization of Capital Assets

Amortization is recorded annually using the straight-line method over the useful lives of the assets as follows:

Furniture and equipment	- 15% of original cost
Computer equipment	- 40% of original cost
Leasehold improvements	- Over the term of the lease

Note 3 Cash and Investment

Cash consists of deposits in the Consolidated Cash Investment Trust Fund ("CCITF") of the Province of Alberta. The Fund is being managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of five years. The Fund earns interest on its daily cash balance at the average rate of interest earned by CCITF, which varies depending on prevailing market interest rates.

Investment also consists of deposits in CCITF. It represents deposits equivalent to the endowment fund balance. These deposits are restricted in accordance with the terms of the endowment.

Note 4 Capital Assets

	1997		1996
	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	\$ 98,552	\$ 88,215	\$ 10,337
Computer equipment	36,876	32,676	4,200
Leasehold improvements	-	-	-
	<u>\$ 135,428</u>	<u>\$ 120,891</u>	<u>\$ 14,537</u>
			<u>\$ 28,655</u>

Note 5 Pension Liability

The Foundation participates with other employers in the Management Employees Pension Plan. The plan provides a pension for the Foundation's Executive Director based on years of service and earnings.

The Foundation had an unfunded pension liability as at March 31 which was estimated at \$41,943 (1996 \$48,000).

The total unfunded pension liability as at March 31, 1997 was determined by an actuarial valuation as at December 31, 1994, extrapolated to March 31, 1997. The 1996 liability was determined using the same valuation extrapolated to March 31, 1996.

The actuarial valuation was determined using the projected benefit method prorated on service. Assumptions used in the valuations are based on each Pension Board's best estimate of future events. The Plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains or losses which relate to the long term are amortized over the expected average remaining service life of the employee group. Gains or losses for which there is a reasonable assurance regarding their measurement and realization are recognized in income immediately.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded liability for each plan will be funded by employers. The Foundation's portion of those employers' liabilities was based on the Foundation's percentage of the total pensionable payroll of all employers in the Plan.

Note 6 Endowment Fund

In 1985, the members of the Foundation directed that the initial contribution from lottery funds amounting to \$4,500,000 be placed in an endowment fund so that the funds are not available for use. In 1993, a further \$2,000,000 was transferred from unrestricted net assets to the endowment fund.

Note 7 International Association for Volunteer Effort

The Foundation is hosting the world volunteer conference of the International Association for Volunteer Effort which will be held in Edmonton, Alberta in August 1998. The project is being funded by the Foundation and also by the Canadian International Development Agency and corporate sponsors.

	1997	1996
Expenditures		
Travel	\$ 76,168	\$ 7,090
Office supplies and services	17,013	37,054
Advertising and publications	16,293	3,184
Accommodation ^(a)	14,000	-
Conference and seminars	4,968	5,595
Hosting	4,087	4,446
Steering committee	1,142	-
	<u>\$ 133,671</u>	<u>\$ 57,369</u>

^(a) The Canadian International Development Agency has provided grant funding for non-refundable deposits made by the Foundation towards the cost of accommodation for conference participants.

Note 8 Support to Alberta Non-Profit Organizations, Net

The purpose of general grants is to assist volunteer organizations with their operating, program and capital expenditure needs.

Amounts expended during the year comprise:

	1997	1996
Under \$10,001	\$ 300,858	\$ 263,145
\$10,001 to \$20,000	775,631	410,573
\$20,001 to \$30,000	1,041,418	1,151,105
\$30,001 to \$40,000	772,499	745,923
\$40,001 to \$50,000	1,658,857	1,990,319
	<u>\$ 4,549,263</u>	<u>\$ 4,561,065</u>
Less: Recoveries	59,215	89,271
	<u>\$ 4,490,048</u>	<u>\$ 4,471,794</u>

Note 9 International Development Program Expenditure, Net

	1997	1996
Grant expenditure, less recoveries	\$ 1,198,956	\$ 1,150,296
Office supplies and services	4,594	3,764
Travel	2,198	2,967
Advertising and promotion	1,372	2,258
Other hosting expenses	910	1,624
	<u>\$ 1,208,030</u>	<u>\$ 1,160,909</u>

This program provides grants to non-government organizations to assist in the improvement of health, social and economic conditions of eligible, less developed countries.

Note 10 Budget

The 1996 budget was approved by members of the Foundation on March 22, 1996.

Note 11 Approval of Financial Statements

These financial statements have been approved by management.

THE WILD ROSE FOUNDATION
SCHEDULE OF OTHER EXPENDITURE INITIATIVES, NET
FOR THE YEAR ENDED MARCH 31, 1997

	1997				1996	
	"Vitalize" Conference ^(a)	"Volunteer Week" Program ^(b)	International Volunteer Exchange Program ^(c)	Other Programs ^(d)	Total	Total
Conference meals	\$ 140,410	\$ -	\$ -	\$ -	\$ 140,410	\$ 139,686
Grant expenditure, less recoveries	-	75,000	-	39,910	114,910	171,304
Facility and audio visual rental	51,910	-	-	-	51,910	36,573
Travel	4,830	670	40,362	2,710	48,572	32,630
Advertising and promotion	36,369	1,489	3,030	-	40,888	36,640
Transportation service	30,774	-	-	-	30,774	35,267
Speaker fees	30,080	-	-	-	30,080	22,749
Office supplies and services	16,914	3,574	7,702	1,026	29,216	31,379
Hosting and entertainment	11,054	557	6,773	4,570	22,954	16,999
Advisory committee meetings	10,277	-	-	-	10,277	13,024
Less recovered from:						
Corporate sponsorships	(41,035)	-	-	-	(41,035)	(26,756)
Registration, banquet and exhibitor fees	(150,431)	-	-	-	(150,431)	(128,745)
	<u>\$ 141,152</u>	<u>\$ 81,290</u>	<u>\$ 57,867</u>	<u>\$ 48,216</u>	<u>\$ 328,525</u>	<u>\$ 380,750</u>

(a) An annual provincial volunteer conference to assist in the development of volunteers and community not-for-profit organizations.

(b) A joint program of the Foundation and Volunteer Alberta to facilitate and coordinate a province wide focus to Volunteer Week, which is held the third week in April of each year.

(c) An exchange program with Alberta's sister province of Hokkaido, Japan.

(d) Includes Provincial Leaders of Tomorrow, Regional Health Authorities Pilot project, and miscellaneous special project initiatives.

THE WILD ROSE FOUNDATION
SCHEDULE OF ADMINISTRATIVE EXPENDITURE
FOR THE YEAR ENDED MARCH 31, 1997

	1997		1996
	Budget (Note 11)	Actual	Actual
Personnel, Schedule 3	\$ 504,538	\$ 506,451	\$ 491,380
Occupancy	84,529	72,802	84,240
Members ⁽¹⁾	77,180	70,580	59,612
Office supplies and services	53,789	55,512	52,170
Loss on lease	-	51,900	-
Severance	-	48,725	-
Amortization of capital assets	16,500	16,625	18,559
Advertising and publications	13,275	12,379	9,876
Staff travel	12,750	9,228	12,595
Hosting	6,450	4,686	6,938
Conferences and seminars	5,954	3,742	6,472
Consultants	-	-	1,086
	<u>\$ 774,965</u>	<u>\$ 852,630</u>	<u>\$ 742,928</u>

⁽¹⁾ Member's expenditure comprises:

	1997	1996
Honoraria	\$ 36,569	\$ 33,443
Travel	23,536	16,280
Functions, conferences and seminars	7,746	7,427
Other	2,729	2,462
	<u>\$ 70,580</u>	<u>\$ 59,612</u>

THE WILD ROSE FOUNDATION
SCHEDULE OF SALARIES, BENEFITS AND ALLOWANCES
FOR THE YEAR ENDED MARCH 31, 1997

	1997				1996	
	Number of Individuals ^(a)	Salaries ^(b)	Benefits and Allowances ^(c)	Total	Number of Individuals ^(a)	Total
Foundation Members ^(d)						
Chairman of the Foundation	1	\$ 17,299	\$ -	\$ 17,299	1	\$ 13,778
Other members of the Foundation	6	19,270	-	19,270	6	19,665
		<u>\$ 36,569</u>	<u>\$ -</u>	<u>\$ 36,569</u>		<u>\$ 33,443</u>
Executive Director	1.00	\$ 75,072	\$ 16,691	\$ 91,763	1.00	\$ 94,341
Program Manager, Quarterly Grants Program	1.00	52,435	15,508	67,943	1.00	64,517
Other full-time staff (average 1997 \$39,395, 1996 \$36,277) ^(e)	8.58	275,058	62,947	338,005	8.92	323,144
Casual wage staff		12,814	926	13,740		5,419
		<u>\$415,379</u>	<u>\$ 96,072</u>	<u>511,451</u>		<u>487,421</u>
Increase (decrease) in accrued vacation pay				1,057		(41)
Increase in pension liability				(6,057)		4,000
				<u>\$506,451</u>		<u>\$491,380</u>

^(a) Number of individuals consists of full time equivalents except for members of the Foundation.

^(b) Salaries include regular base pay, overtime, bonuses, and honoraria.

^(c) Employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, vision coverage, out of country medical coverage, group life insurance, accidental death and dismemberment insurance, long and short-term disability insurance, Canada Pension Plan contributions, unemployment insurance premiums, staff development and vacation pay out.

^(d) The Minister responsible prescribes the rate of remuneration to be paid to the members of the Foundation for time spent on the business of the Foundation.

^(e) Full-time staff consists of all individuals working 29 hours or more per week.

ALBERTA MOTION PICTURE DEVELOPMENT CORPORATION
FINANCIAL STATEMENTS
MARCH 31, 1997

Auditor's Report
Balance Sheet
Statement of Development Fund Income, Expenditure and Fund Balance
Statement of Operating Fund Income, Expenditure and Fund Balance
Statement of Changes in Financial Position
Notes to the Financial Statements

AUDITOR'S REPORT

To the Board of Directors of the
Alberta Motion Picture Development Corporation

I have audited the balance sheet of the Alberta Motion Picture Development Corporation as at March 31, 1997 and the statements of development fund income, expenditure and fund balance, operating fund income, expenditure and fund balance and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
May 9, 1997

ALBERTA MOTION PICTURE DEVELOPMENT CORPORATION
BALANCE SHEET
MARCH 31, 1997
(see Note 1)

	1997	1996
ASSETS		
Development Fund		
Cash	\$ 142,433	\$ 1,131,161
Operating Fund		
Cash	63,149	50,853
Accounts receivable	-	3,050
	<u>63,149</u>	<u>53,903</u>
	<u>\$ 205,582</u>	<u>\$ 1,185,064</u>
LIABILITIES AND FUND BALANCES		
Development Fund		
Fund balance - due to Alberta Motion Picture Development Fund	\$ 142,433	\$ 1,131,161
Operating Fund		
Accounts payable	598	25,298
Fund balance	<u>62,551</u>	<u>28,605</u>
	<u>63,149</u>	<u>53,903</u>
	<u>\$ 205,582</u>	<u>\$ 1,185,064</u>

The accompanying notes are part
of these financial statements.

ALBERTA MOTION PICTURE DEVELOPMENT CORPORATION
STATEMENT OF DEVELOPMENT FUND INCOME, EXPENDITURE
AND FUND BALANCE
FOR THE YEAR ENDED MARCH 31, 1997

	1997 (see Note 1)	1996
Income:		
Recoveries from producers - production financing advances	\$ 66,507	\$ 100,148
Recoveries from producers - research and development advances	1,500	19,396
Bank interest	<u>31,967</u>	<u>114,661</u>
	<u>99,974</u>	<u>234,205</u>
Expenditure:		
Disbursements to producers for production financing	1,065,144	1,638,980
Disbursements to producers for research and development	<u>23,558</u>	<u>237,920</u>
	<u>1,088,702</u>	<u>1,876,900</u>
Excess of expenditure over income prior to transfers from the Motion Picture Development Fund	(988,728)	(1,642,695)
Transfers from the Motion Picture Development Fund	<u>-</u>	<u>2,089,333</u>
Excess (deficiency) of income over expenditure after transfers from the Motion Picture Development Fund	(988,728)	446,638
Fund balance due to Motion Picture Development Fund at beginning of year	<u>1,131,161</u>	<u>684,523</u>
Fund Balance due to Motion Picture Development Fund at end of year	<u>\$ 142,433</u>	<u>\$ 1,131,161</u>

ALBERTA MOTION PICTURE DEVELOPMENT CORPORATION
STATEMENT OF OPERATING FUND INCOME,
EXPENDITURE AND FUND BALANCE
FOR THE YEAR ENDED MARCH 31, 1997

	1997 (See Note 1)	1996
Income		
Contribution from the Province of Alberta - Department of Economic Development and Tourism	\$ 50,000	\$ 483,000
Expenditure:		
Professional fees	16,067	36,504
Administration	1,089	175,943
Salaries and employee benefits	-	194,912
Amortization of capital assets	-	5,957
Honoraria - Board and committee members	-	6,101
Write down (recovery) of capital assets	(1,102)	19,957
Loss on lease	-	21,660
Severance pay	-	85,963
	<u>16,054</u>	<u>546,997</u>
Excess (deficiency) of income over expenditure	33,946	(63,997)
Fund balance at beginning of year	28,605	92,602
Fund balance at end of year	<u>\$ 62,551</u>	<u>\$ 28,605</u>

ALBERTA MOTION PICTURE DEVELOPMENT CORPORATION
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997

	1997 (See Note 1)	1996
Operating activities:		
Excess (deficiency) of income over expenditure:		
Development fund	\$ (988,728)	\$ (1,642,695)
Operating fund	33,946	(63,997)
Add items not affecting cash:		
Amortization	-	5,957
Write down of capital assets	-	19,957
Net change in working capital	(21,650)	9,203
Cash used in operations	<u>(976,432)</u>	<u>(1,671,575)</u>
Investing activities		
Purchase of capital assets	-	(5,153)
Financing activity		
Transfer from Motion Picture Development Fund	-	2,089,333
Increase (decrease) in cash	(976,432)	412,605
Cash at beginning of year	1,182,014	769,409
Cash at end of year	<u>\$ 205,582</u>	<u>\$ 1,182,014</u>
Represented by:		
Development fund	142,433	1,131,161
Operating fund	63,149	50,853
	<u>\$ 205,582</u>	<u>\$ 1,182,014</u>

ALBERTA MOTION PICTURE DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997

Note 1 Authority

The Alberta Motion Picture Development Corporation (the "Corporation") operates under the authority of the Motion Picture Development Act, Chapter M-19.1, Statutes of Alberta 1981, as amended. The purpose of the Corporation was to make disbursements to Alberta companies operating in the motion picture industry and to oversee productions that received funding in previous years.

Discontinuance of Operations

The Corporation ceased normal operations on March 31, 1996. During the year, the Corporation fulfilled its previous commitments of approximately \$1 million to producers of motion pictures for production financing and research and development. Presently, it is expected there will be additional wind-up costs which will be paid out of the operating fund when incurred. Any balances remaining in the Corporation's Development and Operating Funds after all outstanding obligations are fulfilled, will be returned to the Province's General Revenue Fund. It is anticipated that this transfer will occur before March 31, 1998. Accordingly, the fair value associated with the fund balances is considered to be the carrying value.

Note 2 Significant Accounting Policies

Disbursements to Producers

Disbursements to producers were accounted for as expenditures in the year in which they were paid. Repayments and interest earned were accounted for as income of the Corporation's Development Fund in the year in which they were received.

Contributions received from the Province of Alberta

Contributions received from the Province of Alberta were recorded as revenue in the year for which they were approved.

Note 3 Budget and Salary Disclosure

As the Corporation has ceased operations, no budget or salary information is provided.

Note 4. Comparative Figures

Certain 1996 figures have been reclassified to conform to 1997 presentation.

Note 5 Approval of Financial Statements

These financial statements have been approved by the Board of Directors.

ALBERTA OPPORTUNITY COMPANY
FINANCIAL STATEMENTS
MARCH 31, 1997

Auditor's Report
Balance Sheet
Statement of Revenue, Expense and Retained Earnings
Statement of Changes in Financial Position
Notes to the Financial Statements

AUDITOR'S REPORT

To the Board of Directors
of Alberta Opportunity Company

I have audited the balance sheet of Alberta Opportunity Company as at March 31, 1997 and the statements of revenue, expense and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
April 29, 1997

ALBERTA OPPORTUNITY COMPANY
BALANCE SHEET
March 31, 1997
(in thousands)

	1997	1996
ASSETS		
Cash	\$ 3,722	\$ 1,876
Deferred charges and accounts receivable	399	166
Property held for sale (Note 3)	196	443
Loans receivable (Note 4)	75,003	75,588
Capital assets (Note 6)	709	552
	<u>\$ 80,029</u>	<u>\$ 78,625</u>
LIABILITIES AND RETAINED EARNINGS		
Accounts payable and accrued expenses	\$ 1,931	\$ 1,485
Notes payable (Notes 7 and 12)	42,493	26,725
Debentures payable (Notes 8 and 12)	18,742	38,608
Pension obligations (Note 9)	794	1,067
	<u>63,960</u>	<u>67,885</u>
Retained earnings	<u>16,069</u>	<u>10,740</u>
	<u>\$ 80,029</u>	<u>\$ 78,625</u>

Approved on behalf of the Board of Directors:

R. Bell
Chair

J.R. Anderson
President and CEO

The accompanying notes are part
of these financial statements.

ALBERTA OPPORTUNITY COMPANY
STATEMENT OF REVENUE, EXPENSE AND RETAINED EARNINGS
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands)

	1997	1996
	Budget (Note 15)	Actual
Revenue:		
Interest	\$ 8,780	\$ 7,815
Application and processing fees	463	474
Gain on sale of investments	-	147
Grant from the Province of Alberta for the assistance of small business	7,427	9,051
	<u>16,670</u>	<u>18,388</u>
Expense:		
Operations (Note 10)	7,478	5,965
Interest	5,460	6,324
Charge for loan losses and losses on realization (Notes 3 and 5)	3,732	958
	<u>16,670</u>	<u>13,685</u>
Income before debt reduction grant	-	4,703
Debt reduction grant	-	27,000
Net income for the year	<u>\$ -</u>	<u>31,703</u>
Retained earnings (deficit), beginning of year	10,740	(20,963)
Retained earnings, end of year	<u>\$ 16,069</u>	<u>\$ 10,740</u>

ALBERTA OPPORTUNITY COMPANY
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands)

	1997		1996
	Budget	Actual	Actual
	(Note 15)		
Cash provided by (used for):			
Operating activities:			
Net income for the year	\$ -	\$ 5,329	\$ 31,703
Recoveries of loans and investments written off	400	311	425
Items not involving cash:			
Charge for loan losses and losses on realization	3,732	122	958
Amortization of capital assets	256	131	119
Amortization of note discounts	-	69	1,474
Pension liability increase (decrease)	-	(273)	5
Net change in other assets and liabilities	(50)	(193)	(70)
	<u>4,338</u>	<u>5,496</u>	<u>34,614</u>
Investing activities:			
Loans receivable disbursed	(30,000)	(25,518)	(26,086)
Loans receivable repaid	23,293	26,020	24,213
Proceeds from sale of investments	55	29	652
Proceeds from sale of property	665	288	208
Other	(950)	(333)	(701)
	<u>(6,937)</u>	<u>486</u>	<u>(1,714)</u>
Financing activities:			
Proceeds of notes	22,500	19,135	27,000
Repayment of notes	(11,669)	(3,405)	(22,275)
Repayment of debentures	(9,335)	(19,866)	(39,790)
Repayment of subordinated notes	-	-	(6,292)
	<u>1,496</u>	<u>(4,136)</u>	<u>(41,357)</u>
Increase (decrease) in cash	<u>\$ (1,103)</u>	<u>1,846</u>	<u>(8,457)</u>
Cash at beginning of year		<u>1,876</u>	<u>10,333</u>
Cash at end of year		<u>\$ 3,722</u>	<u>\$ 1,876</u>

ALBERTA OPPORTUNITY COMPANY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997
(tabular amounts in thousands of dollars)

Note 1 Authority and purpose

Alberta Opportunity Company operates under the authority of the Alberta Opportunity Fund Act, Chapter A-34, Revised Statutes of Alberta 1980, as amended.

The purpose of the Company is to provide financial assistance and guidance for the development of Alberta business. Priority is given to smaller businesses in rural communities which, although viable, are unable to obtain financing from conventional institutions. Priority is also given to Alberta-owned businesses which will create jobs, are introducing improvements in productivity or technology, or have export or tourism potential.

The Province of Alberta maintains the financial viability of the Company by granting money appropriated for this purpose.

Note 2 Significant accounting policies

Deferred charges:

Deferred discounts arising on the issue of notes payable are amortized on a straight-line basis over the term to maturity and charged to interest expense.

Property held for sale:

Property held for sale is valued at the lower of cost and estimated net realizable value. Operating costs less rental revenues are added to the cost of the properties. Changes in the allowance for losses on realization are reflected in income.

Loans receivable:

Interest revenue is accrued on loans until such time as a loan is classified as impaired. Interest income is not recognized on impaired loans until such time as the charges for loan impairment have been reversed.

The allowance for loan losses represents Management's best estimate of probable losses on loans outstanding. The allowance has a specific and a general component. The specific allowance is established following a detailed review on a loan-by-loan basis wherein the discounted future cash flows and the fair value of the security underlying the loan are determined. The general allowance is based on historical experience to cover losses that have not been specifically identified. Changes in the allowance for loan losses are reflected in income.

Capital assets:

Capital assets are recorded at cost and amortized on a straight-line basis over the estimated useful lives of the assets as follows:

Furniture and office equipment	-	15%
Computer equipment	-	20%
Leasehold improvements	-	term of each lease

Pension costs:

Pension costs comprise: the cost of pension benefits earned by employees during the year; interest on the Company's share of the unfunded pension liability; the amortization of deferred adjustments over the expected average remaining service life of employees which relate to the long term; adjustments to the pension obligation recognized immediately if there is reasonable assurance that a gain or loss has been realized; and the effect of the change in the ratio used to allocate the plan's total unfunded liability to participating entities. The net expense or recovery is included as part of salaries and benefits.

Operating grant:

The grant from the Province of Alberta is recorded as revenue in the year for which it is approved.

Note 3 Property held for sale

	1997	1996
Cost	\$ 849	\$ 1,118
Less allowance for losses on realization		
Allowance, beginning of year	675	622
Charge for losses on realization	29	151
Reversal on sale	(51)	(98)
Allowance, end of year	653	675
	<u>\$ 196</u>	<u>\$ 443</u>

Note 4 Loans receivable

	1997	1996
Loans and accrued interest receivable	\$ 72,528	\$ 72,975
Impaired loans(a)	9,630	10,765
	<u>82,158</u>	<u>83,740</u>
Less allowance for loan losses (Note 5)		
Specific allowance(a)	3,916	4,810
General allowance	3,239	3,342
	<u>7,155</u>	<u>8,152</u>
	<u>\$ 75,003</u>	<u>\$ 75,588</u>

(a) Includes venture and seed investments with an estimated net realizable value and corresponding specific allowance of \$188,000 (\$217,000 in 1996).

Loans have an average term of between four and five years and are secured by general security agreements, land mortgages, debentures and guarantees. Loans generate a weighted average interest return of 9.7% (10.0% in 1996).

Note 5 Allowance for loan losses

	1997	1996
Allowance, beginning of year	\$ 8,152	\$ 9,174
Charge for loan losses	93	807
Write-offs	(1,401)	(2,254)
Recoveries of amounts previously written off	311	425
Allowance, end of year	<u>\$ 7,155</u>	<u>\$ 8,152</u>

Note 6 Capital assets

	1997		1996
	Cost	Accumulated amortization	Net book value
Equipment	\$ 1,358	\$ 703	\$ 655
Leasehold improvements	164	110	54
	<u>\$ 1,522</u>	<u>\$ 813</u>	<u>\$ 709</u>
			<u>\$ 552</u>

Note 7 Notes payable

Notes are payable to the General Revenue Fund of the Province of Alberta.

Maturity Dates	Interest Rates	1997	1996
December 19, 1997	Discount note-3.66% yield	\$ 3,000	\$ -
March 3, 1998	Discount note-3.67% yield	3,100	-
February 15, 2001	5.65%	15,320	18,725
March 29, 2001	6.75%	8,000	8,000
March 27, 2002	5.44%	13,250	-
		<u>42,670</u>	<u>26,725</u>
Less unamortized discounts		177	-
		<u>\$ 42,493</u>	<u>\$ 26,725</u>

Scheduled principal repayments are as follows:

1998	\$ 9,522
1999	3,806
2000	4,024
2001	11,891
2002	13,250
	<u>\$ 42,493</u>

Note 8 Debentures payable

Debentures are payable to the Province of Alberta and held by the Alberta Heritage Savings Trust Fund.

	Maturity dates	Interest rates	1997	1996
Series E	September 30, 2000	7.71%	\$ 15,370	\$ 32,198
Series F	September 30, 1998	7.05%	3,372	6,410
			<u>\$ 18,742</u>	<u>\$ 38,608</u>

Scheduled principal repayments are as follows:

1998	\$ 6,193
1999	5,461
2000	4,635
2001	2,453
	<u>\$ 18,742</u>

Note 9 Pension obligations

The Company participates with other employers in the Public Service Pension Plan and Management Employees Pension Plan. These plans provide pensions for the Company's employees based on years of service and earnings.

The Company had an unfunded pension liability for each plan as at March 31 which was estimated as follows:

	1997	1996
Public Service Pension Plan	\$ 126	\$ 261
Management Employees Pension Plan	668	806
	<u>\$ 794</u>	<u>\$ 1,067</u>

The total unfunded pension liability for each plan as at March 31, 1997 was determined by actuarial valuation as at December 31, 1995 for the Public Service Pension Plan and as at December 31, 1994 for the Management Employees Pension Plan, both extrapolated to March 31, 1997. (The 1996 comparatives were determined using the same valuations extrapolated forward to March 31, 1996.)

The actuarial valuations were determined using the projected benefit method prorated on service. Assumptions used in the valuations are based on each Pension Board's best estimate of future events. Each Plans' future experience will inevitably vary, perhaps significantly, from the assumptions. Any difference between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses which relate to the long term are amortized over the expected average remaining service life of the employee group. Gains and losses for which there is reasonable assurance regarding their measurement and realization are recognized in income immediately.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded liability for each plan that will be funded by employers. The Company's portion of those employers' liabilities was based on the Company's percentage of the total pensionable payroll of all employers in each Plan.

Note 10 Operations

	1997	1996
Salaries and benefits (Note 11)	\$ 3,598	\$ 4,140
Severance	493	262
Occupancy	487	490
Legal and other fees	404	421
Communications	361	340
Amortization of capital assets	131	119
Board of Directors fees (Note 11)	83	83
Other	408	548
	<u>\$ 5,965</u>	<u>\$ 6,403</u>

Note 11 Board fees, salaries and benefits

	1997				1996	
	Number of individuals	Salary ^(a)	Benefits ^(b)	Total	Number of individuals	Total
Chairman of the Board	1	\$ 16	\$ -	\$ 16	1	\$ 13
Board Members	8	67	-	67	7	70
Total Board fees	<u>9</u>	<u>\$ 83</u>	<u>\$ -</u>	<u>\$ 83</u>	<u>8</u>	<u>\$ 83</u>
President and CEO ^(c)	1	95	15	110	1	117
Vice Presidents:						
Lending	1	88	15	103	1	102
Finance and Administration ^(d)	1	29	23	52	1	41
Assistant Vice President:						
Lending (average 1997 \$98, 1996 \$102)	1	84	14	98	1	127
Other managers (average 1997 \$71, 1996 \$76)	14	814	182	996	13	989
Other salaried staff:						
Professional staff (average 1997 \$51, 1996 \$52)	33	1,434	233	1,667	35	1,829
Clerical staff (average 1997 \$27, 1996 \$29)	25	553	121	674	26	745
Non-salaried staff:						
Clerical staff (average 1997 \$34, 1996 \$30)	6	180	22	202	6	181
	<u>82</u>	<u>3,277</u>	<u>625</u>	<u>3,902</u>	<u>84</u>	<u>4,131</u>
Increase (decrease) in pension liability	-	-	(273)	(273)	-	5
Increase (decrease) in vacation accrual	-	(31)	-	(31)	-	4
Total salaries and benefits	<u>82</u>	<u>\$ 3,246</u>	<u>\$ 352</u>	<u>\$ 3,598</u>	<u>84</u>	<u>\$ 4,140</u>

^(a) Salary includes regular base pay, overtime and Board of Directors fees.

^(b) Benefits includes the Company's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, accidental disability and dismemberment insurance, short-term disability plan and vacation payouts.

^(c) Automobile provided, no amount included for benefits.

^(d) The Vice President, Finance and Administration was on medical leave for a portion of the year.

Note 12 Financial Instruments

Fair values

Estimated fair value approximates amounts at which financial instruments could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. Many of the Company's financial instruments lack an available trading market, so fair values are based on estimates using present value techniques which are affected by assumptions concerning the timing of future cash flows and discount rates. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The Company has determined the fair value of its financial instruments as follows:

- (a) Cash, deferred charges and accounts receivable, accounts payable and accrued expenses:

The carrying amount on the balance sheet approximates fair value because of the short-term nature of these instruments.

- (b) Loans receivable:

Fair value was not established for the loan portfolio due to there being no established market for the developmental loans made by the Company. With no available market information and the diverse nature of the loan portfolio it was not deemed practicable to determine the fair value with sufficient reliability.

- (c) Notes payable and debentures payable:

The estimated fair values of the Company's debt instruments are as follows:

	1997		1996	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Notes payable	\$ 42,493	\$ 41,906	\$ 26,725	\$ 26,102
Debentures payable	18,742	19,527	38,608	39,725
	<u>\$ 61,235</u>	<u>\$ 61,433</u>	<u>\$ 65,333</u>	<u>\$ 65,827</u>

Credit risk management:

Credit risk arises from the potential for borrowers to default on their contractual loan obligations. Credit exposure on the Company's loan portfolio is managed through appropriate due diligence and account administration. To minimize the credit risk associated with the loans the Company requires security agreements and personal guarantees on all loans.

Interest rate risk management:

The Company manages interest rate risk by borrowing a mix of short-term and long-term debt through the Province of Alberta General Revenue Fund at fixed interest rates and terms designed to match the average terms of the Company's loan portfolio. The debt of the Company is fully guaranteed by the Province of Alberta.

Cash is deposited in the Province of Alberta's Consolidated Cash Investment Trust Fund which is managed with the objective of providing a competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of five years.

Note 13 Contingent liabilities

Guarantees of bank loans:

The Company is contingently liable as a guarantor of bank operating lines of credit as follows:

	1997	1996
Guarantees	\$ 2,133	\$ 2,185
Export guarantees	2,540	2,000
	<u>\$ 4,673</u>	<u>\$ 4,185</u>

Legal actions:

There are six claims against the Company totalling approximately \$3,324,000. The Company considers that a valid defense exists in each instance and no material loss is anticipated.

General:

In the event that the Company incurs a loss on the foregoing matters, the loss will be accounted for as a charge to income in the year that the loss is determined.

Note 14 Commitments

Unimplemented authorizations:

	1997	1996
Loans	<u>\$ 14,165</u>	<u>\$ 6,633</u>
Guarantees	\$ 878	\$ 920
Export guarantees	<u>165</u>	<u>175</u>
	<u>\$ 1,043</u>	<u>\$ 1,095</u>

Operating leases:

The Company has obligations under long-term, non-cancellable operating leases for premises. These leases generally have five year terms, include five year renewal options, and provide for payment of operating expenses and real estate taxes in excess of the amounts established at the commencement of the leases. The future minimum lease payments and estimated related costs for each of the next five years are as follows:

1998	\$ 248
1999	132
2000	83
2001	29
2002	8
	<u>\$ 500</u>

Note 15 Budget

The 1997 budget was approved by Management on January 10, 1996 and is presented for comparison with the 1997 actual figures.

Note 16 Comparative figures

The 1996 figures have been reclassified where necessary to conform to 1997 presentation.

ALBERTA RACING COMMISSION
FINANCIAL STATEMENTS
OCTOBER 3, 1996

Auditor's Report
Balance Sheet
Statement of Revenue, Expenditure and Accumulated Excess of Revenue Over Expenditure
Statement of Changes in Financial Position
Notes to the Financial Statements

AUDITOR'S REPORT

To the Members of the
Alberta Racing Commission

I have audited the balance sheet of the Alberta Racing Commission as at October 3, 1996 and the statements of revenue, expenditure and accumulated excess of revenue over expenditure and changes in financial position for the period then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at October 3, 1996 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
December 18, 1996

ALBERTA RACING COMMISSION BALANCE SHEET

	October 3, 1996 <u>(Note 1)</u>	March 31, 1996 <u></u>
ASSETS		
Current:		
Cash (Note 4)	\$ -	\$ 1,517,373
Accounts receivable	-	64,137
Prepaid expenses	-	12,361
	<u>-</u>	<u>1,593,871</u>
Cash held in reserves	-	300,000
Capital assets (Note 5)	-	29,716
	<u>\$ -</u>	<u>\$ 1,923,587</u>
LIABILITIES AND EQUITY		
Current:		
Accounts payable	\$ -	\$ 370,723
Deferred license revenue	-	43,699
	<u>-</u>	<u>414,422</u>
Pension liability (Note 6)	-	61,000
Equity:		
Accumulated excess of revenue over expenditure	-	1,148,165
Reserve (Note 7)	-	300,000
	<u>-</u>	<u>1,448,165</u>
	<u>\$ -</u>	<u>\$ 1,923,587</u>

The accompanying notes are part
of these financial statements.

ALBERTA RACING COMMISSION
STATEMENT OF REVENUE, EXPENDITURE AND ACCUMULATED EXCESS OF
REVENUE OVER EXPENDITURE

	April 1, to October 3, 1996		Year Ended March 31, 1996
	Budget	Actual	Actual
Revenue:			
Contributions by the Province of Alberta (Note 8)	\$ 4,450,661	\$ 5,052,661	\$ 7,621,325
Assessments, licenses and fines	200,040	213,299	393,596
Sponsorships	100,000	120,880	-
Interest	166,500	111,619	312,559
Rural racing levy	26,400	19,068	49,092
Miscellaneous	76,200	75,031	75,585
Total revenue	<u>5,019,801</u>	<u>5,592,558</u>	<u>8,452,157</u>
Development expenditure:			
Thoroughbred support:			
Grants	123,500	118,075	116,799
Breeders of Alberta breds bonus	303,800	373,968	421,040
Owners of Alberta breds premium	403,400	469,495	591,094
Purse supplements	<u>1,914,466</u>	<u>1,928,609</u>	<u>2,102,760</u>
	<u>2,745,166</u>	<u>2,890,147</u>	<u>3,231,693</u>
Standardbred support:			
Grants	92,700	91,805	92,820
Breeders of Alberta breds bonus	62,000	63,904	125,000
Owners of Alberta breds premium	158,500	187,145	354,706
Purse supplements	<u>1,142,000</u>	<u>1,121,649</u>	<u>2,171,138</u>
	<u>1,455,200</u>	<u>1,464,503</u>	<u>2,743,664</u>
Community support:			
Grants	174,900	317,254	171,105
Purse supplements	310,990	263,005	307,989
Consulting services	-	-	27,745
	<u>485,890</u>	<u>580,259</u>	<u>506,839</u>
	<u>4,686,256</u>	<u>4,934,909</u>	<u>6,482,196</u>
Promotions	225,000	450,689	25,512
Equine research	-	-	5,000
Other	-	-	4,446
	<u>4,911,256</u>	<u>5,385,598</u>	<u>6,517,154</u>
Operating expenditure:			
Salaries, wages and employee benefits (Note 9)	461,542	438,606	854,161
Other operating expenditures (Note 10)	<u>414,425</u>	<u>486,915</u>	<u>456,864</u>
	<u>875,967</u>	<u>925,521</u>	<u>1,311,025</u>
Total expenditure	<u>5,787,223</u>	<u>6,311,119</u>	<u>7,828,179</u>
(Deficiency) excess of revenue over expenditure for the period	<u>\$ (767,422)</u>	<u>(718,561)</u>	<u>623,978</u>
Accumulated excess of revenue over expenditure at beginning of period		1,148,165	524,187
Reserve returned to accumulated excess of revenue over expenditure (Note 7)		300,000	-
Transfer to the Alberta Racing Corporation (Note 2)		<u>(729,604)</u>	<u>-</u>
Accumulated excess of revenue over expenditure at end of period		<u>\$ -</u>	<u>\$ 1,148,165</u>

ALBERTA RACING COMMISSION
STATEMENT OF CHANGES IN FINANCIAL POSITION

	April 1 to October 3, 1996	Year Ended March 31, 1996
Cash from operations:		
Base operating grant	\$ 6,800,000	\$ 7,580,000
Receipts from racing activities	246,292	490,435
Other receipts	218,287	311,623
Thoroughbred development expenditures	(2,651,524)	(3,198,451)
Standardbred development expenditures	(1,292,959)	(2,751,856)
Community development expenditures	(584,635)	(511,879)
Other development expenditures	(229,491)	(34,958)
Salaries and related payments	(482,129)	(856,755)
Other operating expenditures	(215,025)	(406,054)
Net cash generated from operations	<u>1,808,816</u>	<u>622,105</u>
Cash from financing and investing:		
Sires Stakes payments	(11,364)	(25,429)
Sires Stakes receipts	22,700	23,490
Capital assets additions	(1,799)	(22,860)
Transfer to the Alberta Racing Corporation (Note 2)	<u>(3,635,726)</u>	<u>-</u>
Net cash applied to financing and investing	<u>(3,626,189)</u>	<u>(24,799)</u>
Net (decrease) increase in cash	<u>(1,817,373)</u>	<u>597,306</u>
Cash at beginning of period	1,817,373	1,220,067
Cash at end of period	<u>\$ -</u>	<u>\$ 1,817,373</u>
Cash consists of:		
Current cash	\$ -	\$ 1,517,373
Cash held in reserves	<u>-</u>	<u>300,000</u>
	<u>\$ -</u>	<u>\$ 1,817,373</u>

ALBERTA RACING COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 3, 1996

Note 1 Authority and Dissolution

The Alberta Racing Commission operated, until October 3, 1996, under the authority of the Racing Commission Act, Chapter R-1, Revised Statutes of Alberta 1980, to govern, direct, control and regulate horse racing in Alberta in any or all of its forms.

The Racing Commission Act was repealed on October 3, 1996. On this date, the assets, liabilities, and equity of the Commission were transferred to the newly-formed Alberta Racing Corporation. The Alberta Racing Corporation operates under the authority of the Racing Corporation Act, proclaimed in force on October 4, 1996.

The Commission is exempt from payment of income taxes under Section 149 of the Income Tax Act.

Note 2 Transfer to the Alberta Racing Corporation

Effective October 3, 1996, all assets, liabilities, and equity of the Commission were transferred to the Alberta Racing Corporation, pursuant to Section 32 of the Racing Corporation Act.

Net assets transferred are comprised of the following:

Cash	\$ 3,635,726
Accounts receivable	145,678
Prepaid expenses	39,277
Capital assets	27,481
	<u>3,848,162</u>
Less:	
Accounts payable	1,328,387
Deferred license revenue	22,171
Deferred contributions	1,768,000
	<u>3,118,558</u>
Net assets transferred	<u>\$ 729,604</u>

Note 3 Significant Accounting Policies and Reporting Practices

Capital Assets

Capital assets are reported at cost less accumulated amortization. Amortization is calculated on a straight-line basis over 5 to 10 years which approximates useful life.

Revenue Recognition

Contributions by the Province of Alberta, assessments, fines, levies, and interest are recognized as revenue when receivable. Contributions by the Province of Alberta received for a future period are deferred until that future period. Licenses revenue is deferred and recognized during the period to which it pertains.

Note 4 Cash

Cash consists of deposits in the Consolidated Cash Investment Trust Fund of the Province of Alberta. Interest is earned on the daily balance in the Fund at the average rate on Fund investments.

Note 5 Capital Assets

Capital assets held immediately before the transfer, referred to in Note 2, are comprised of the following:

	October 3, 1996		March 31, 1996
	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	<u>\$120,470</u>	<u>\$ 92,989</u>	<u>\$27,481</u>
			<u>\$29,716</u>

Note 6 Pension Liability

The Commission participated with other employers in the Public Service Pension Plan (the "Plan"). The Plan provided pensions for the Commission's employees based on years of service and earnings.

The Commission withdrew from the Plan effective October 2, 1996 (see Note 1).

Note 7 Reserve

A revenue stabilization reserve was created pursuant to a Ministerial Order dated December 16, 1976 to compensate for sudden changes in economic conditions or other factors which might affect substantially the income and expenditure of the Commission. The reserve held prior to the transfer referred to in Note 2 was:

	October 3, 1996	March 31, 1996
Revenue stabilization reserve	<u>\$ 300,000</u>	<u>\$ 300,000</u>

Note 8 Contributions by the Province of Alberta

	April 1 to October 3, 1996		Year Ended March 31, 1996
	Budget	Actual	Actual
Base grant	\$4,430,000	\$5,032,000	\$7,580,000
Administration expenses paid by the General Revenue Fund	20,661	20,661	41,325
	<u>\$4,450,661</u>	<u>\$5,052,661</u>	<u>\$7,621,325</u>

Note 9 Salaries, Wages and Employee Benefits

	April 1 to October 3, 1996				Year Ended March 31, 1996	
	Full-time Equivalents	Salary ^(a)	Benefits ^(b)	Total	Full-time Equivalents	Total
Chairman	-	\$ 19,086	\$ -	\$ 19,086	-	\$ 43,318
Commission Members ^(c)	-	10,284	615	10,899	-	27,252
Head Veterinarian	0.50	39,631	4,408	44,039	1.00	88,169
Supervisor of Racing	0.50	25,618	3,572	29,190	1.00	58,096
Assistant Supervisor of Racing	0.50	23,559	3,851	27,410	1.00	54,479
Controller	0.50	21,194	3,001	24,195	1.00	41,431
Other salaried staff:						
Racetrack (average						
October 3, 1996 \$36,004						
March 31, 1996 \$47,746)	4.00	123,491	20,525	144,016	6.00	286,475
Administration (average						
October 3, 1996 \$46,028						
March 31, 1996 \$28,982)	2.08	86,715	9,024	95,739	5.08	147,231
Non-salaried staff:						
Race track	-	57,264	3,206	60,470	-	85,882
Administration	-	14,095	883	14,978	-	28,345
Change in pension liability	-	-	-	(61,000)	-	(6,000)
Change in accrued vacation pay	-	-	-	29,584	-	(517)
	<u>8.08</u>	<u>\$420,937</u>	<u>\$49,085</u>	<u>\$438,606</u>	<u>15.08</u>	<u>\$854,161</u>

(a) Salary includes regular base pay, overtime and vacation pay.

(b) Benefits and allowances include the employer's share of all employee benefits and contributions or payments including Alberta Public Service and Canada pension plans; unemployment, group life, long-term disability, and accidental disability and dismemberment insurance; basic and extended health care insurance; and workers' compensation.

(c) Members of the Commission included four individuals from April 1, 1995 to June 30, 1995, and individuals from July 1, 1995 to October 3, 1996.

Note 10 Other Operating Expenditures

	April 1 to October 3, 1996		Year Ended March 31, 1996
	Budget	Actual	Actual
Severance pay	\$ 200,000	\$ 223,735	\$ -
Travelling	67,200	77,405	127,055
Office and administration	65,725	69,252	127,279
Consulting services	51,000	50,809	81,975
Privatization costs	-	34,525	59,530
Licensee identification equipment and supplies	-	2,810	7,538
Equine toxicology	5,000	8,933	14,340
Amortization	3,000	4,034	5,171
Security services, equipment and supplies	4,500	3,915	2,939
Human toxicology	3,000	3,648	4,812
Hearings and appeals	15,000	7,849	26,225
	<u>\$ 414,425</u>	<u>\$ 486,915</u>	<u>\$ 456,864</u>

Note 11 Budget

The budget for the period April 1, 1996 to October 3, 1996 was approved by the Commission on September 11, 1996.

Note 12 Comparative Figures

Certain March 31, 1996 figures have been reclassified to conform to the current period presentation.

Note 13 Approval of Financial Statements

These financial statements were approved by the Commission Chairman.

ALBERTA ENERGY AND UTILITIES BOARD
FINANCIAL STATEMENTS
MARCH 31, 1997

Auditor's Report
Balance Sheet
Statement of Revenue, Expenditure and Surplus
Statement of Changes in Financial Position
Notes to the Financial Statements
Schedule of Assets, Liabilities and Surplus by Fund
Schedule of Revenue, Expenditure and Surplus by Fund

AUDITOR'S REPORT

To the Members of the Alberta Energy and Utilities Board

I have audited the balance sheet of the Alberta Energy and Utilities Board as at March 31, 1997 and the statements of revenue, expenditure and surplus, and changes in financial position for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
May 2, 1997

ALBERTA ENERGY AND UTILITIES BOARD
BALANCE SHEET
AS AT MARCH 31, 1997
(thousands of dollars)

	1997	1996
	(Schedule 1)	
ASSETS		
Current:		
Cash (Note 3)	\$ 26,123	\$ 20,968
Accounts receivable	1,702	1,508
Prepaid expenses	464	432
	<u>28,289</u>	<u>22,908</u>
Capital assets (Note 4)	3,615	5,965
	<u>\$ 31,904</u>	<u>\$ 28,873</u>
LIABILITIES AND SURPLUS		
Current:		
Accounts payable	\$ 1,433	\$ 2,009
Accrued vacation	3,289	2,733
	<u>4,722</u>	<u>4,742</u>
Funds held on behalf of others (Note 5)	2,647	1,135
Pension obligations (Note 6)	4,816	5,693
	<u>12,185</u>	<u>11,570</u>
Surplus	19,719	17,303
	<u>\$ 31,904</u>	<u>\$ 28,873</u>

The accompanying notes and schedules are an integral part of these financial statements.

ALBERTA ENERGY AND UTILITIES BOARD
STATEMENT OF REVENUE, EXPENDITURE AND SURPLUS
FOR THE YEAR ENDED MARCH 31, 1997
(thousands of dollars)

	1997		1996
	Actual	Budget	Actual
	(Schedule 2)		(Schedule 2)
Revenue:			
Industry levies and assessments	\$ 28,426	\$ 28,160	\$ 21,123
Applications and licences	14,403	9,900	11,861
Provincial contributions	12,830	12,830	18,488
Information and services	3,475	3,600	3,102
Interest	1,597	1,200	2,039
Miscellaneous	863	60	872
	<u>61,594</u>	<u>55,750</u>	<u>57,485</u>
Expenditure:			
Salaries and benefits (Note 7)	35,889	34,491	36,478
Building rental and maintenance	5,584	5,800	5,875
Capital assets expensed (Note 4)	2,438	-	1,307
Contract services	2,360	2,378	2,250
Computer services	2,226	2,607	2,548
Vehicle and equipment operating costs	2,197	1,495	1,554
Minor capital acquisitions	2,099	1,906	1,756
Well abandonment	2,098	3,090	2,184
Supplies	1,705	1,633	1,777
Travel and subsistence	1,025	1,326	961
Amortization	960	1,300	1,074
Miscellaneous	597	479	558
	<u>59,178</u>	<u>56,505</u>	<u>58,322</u>
Excess (deficiency) of revenue over expenditure	2,416	(755)	(837)
Surplus at beginning of year	17,303	17,303	18,140
Surplus at end of year	<u>\$ 19,719</u>	<u>\$ 16,548</u>	<u>\$ 17,303</u>

ALBERTA ENERGY AND UTILITIES BOARD
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997
(thousands of dollars)

	1997	1996
Operating activities:		
Surplus (deficit) for the year	\$ 2,416	\$ (837)
Non-cash transactions:		
Amortization	960	1,074
Gain on disposal of capital assets	(3)	(36)
Capital assets expensed (Note 4)	2,438	1,307
Change in pension obligations (Note 6)	(877)	89
	<u>4,934</u>	<u>1,597</u>
Changes in non-cash working capital	(246)	(207)
	<u>4,688</u>	<u>1,390</u>
Investing and financing activities:		
Investment in capital assets	(1,048)	(2,179)
Proceeds on disposal of capital assets	3	1,086
Change in funds held on behalf of others	1,512	716
	<u>467</u>	<u>(377)</u>
Increase in cash during the year	5,155	1,013
Cash at beginning of year	20,968	19,955
Cash at end of year	<u>\$ 26,123</u>	<u>\$ 20,968</u>

ALBERTA ENERGY AND UTILITIES BOARD
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997

Note 1 Authority and Purpose

The Alberta Energy and Utilities Board (the "Board") operates under the authority of the Alberta Energy and Utilities Board Act with the mandate to ensure that development of Alberta's energy resources takes place in a responsible manner in the public interest and that Albertans receive safe and efficient utility service at rates that are fair and reasonable.

Note 2 Significant Accounting Policies

These financial statements are prepared in accordance with generally accepted accounting principles, and include the following significant policies:

(a) Fund Accounting

The accounts of the Board are maintained in accordance with the principles of fund accounting in order to recognize the intended purpose of available resources. These funds are classified as follows:

Energy Resources Fund

This fund accounts for the Board's operating activities in relation to regulating the resources and utility industries.

Well Abandonment Fund

This fund accounts for the oil and gas industry funded initiative to ensure the safe and orderly abandonment of wells which have no registered owner.

(b) Capital Assets

All land; developed or purchased computer software with an original value greater than \$100,000 and an economic life greater than one year; and any other asset with an original value greater than \$15,000 and an economic life greater than one year are capitalized. The original value reflects the original cost for purchased assets, and fair value for donated assets.

Amortization is calculated using the straight-line method over the following estimated useful lives:

Computer software	5 years
Computer hardware	5 years
Furniture and equipment	10 years
Leasehold improvements	Lease term

The useful lives have been estimated by management and will inevitably differ from actual, perhaps significantly, resulting in amortization expense not matching consumption over the asset's life.

(c) Accrued Vacation

Vacation is expensed in the year earned. A liability is accrued representing any future obligation which will be taken in kind, or paid out upon termination.

(d) Pension Obligations

Pension expense is included in the Statement of Revenue, Expenditure and Surplus within salaries and benefits. Pension expense includes the cost of current service, interest on unfunded liabilities, plus gains or losses resulting from experience adjustments, changes in assumptions, and past service. The gains and losses are amortized on a straight-line basis over the expected average remaining service life of the related employee group unless there is reasonable assurance regarding measurement and realization in which case they are recognized immediately.

The cumulative differences between pension expense and funding contributions is shown on the balance sheet as pension obligations.

Note 3 Cash

Cash consists of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of Alberta, and deposits held by the Royal Bank of Canada.

Interest is earned on the Board's daily CCITF balance based upon a pro-rata allocation of total fund earnings. The Royal Bank deposits are funds held on behalf of others, and interest earned is accrued to the benefit of the depositor.

Note 4 Capital Assets

		1997	Net Asset	1996
	Cost	Accumulated Amortization	Value	Net Asset Value
	(thousands of dollars)			
Computer software	\$ 9,416	\$ 8,144	\$ 1,272	\$ 1,340
Furniture and equipment	2,303	2,052	251	308
Computer hardware	1,395	959	436	416
Software under development	831	-	831	3,581
Leasehold improvements	534	29	505	-
Land	320	-	320	320
	<u>\$ 14,799</u>	<u>\$ 11,184</u>	<u>\$ 3,615</u>	<u>\$ 5,965</u>

Effective March 31, 1997 the Board expensed a software under development project with a prior cumulative value of \$2,438,000. The project was deemed to provide no future benefit based upon technological and conceptual design changes.

Effective April 1, 1995 the Board expensed all existing assets with an original value less than \$15,000 thus incurring a \$1,307,000 charge against income.

Note 5 Funds Held on Behalf of Others

The Board collects cash deposits to ensure the proper abandonment of oil and gas wells. The deposits plus earned interest are returned to the registered owner upon compliance.

Note 6 Pension Obligations

The Board participates with other public sector employers in the Public Service Pension Plan and the Management Employees Pension Plan. To compensate senior staff who do not participate in the Management Employees Pension Plan the Board established a defined benefit Senior Employees Pension Plan effective March 17, 1997. This new plan replaces the unvested portion of the defined contribution Management Retiring Allowance Plan. Also, effective March 17, 1997 the Board established a non-contributory benefit plan that provides for supplemental payments to the extent that statutory guidelines and plan amendments limit benefits under the Senior Employees Pension Plan. These plans provide pensions for the Board's employees based on years of service and average earnings at retirement.

The total unfunded pension obligations for each plan as at March 31, 1997 was an extrapolation of actuarial valuations as at December 31, 1995 for the Public Service Pension Plan, as at December 31, 1994 for the Management Employees Pension Plan and as at March 17, 1997 for the Senior Employees Pension Plan and supplementary benefit plan. The 1996 comparative figures were extrapolations of actuarial valuations as at December 31, 1993 for the Public Service Pension Plan, and as at December 31, 1994 for the Management Employees Pension Plan.

The actuarial valuations were determined using the projected benefit method prorated on service. Assumptions used in the valuations are based on best estimates of future events. Each Plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any difference between the actuarial assumptions and future experience will emerge as gains or losses in future valuations.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded obligation for the Public Service Pension Plan and the Management Employees Pension Plan which will be funded by employers. The Board's portion of those employers' obligations was based on the Board's percentage of the total pensionable payroll of all employers.

Assumptions used in computing the projected benefit obligation for the Senior Employees Pension Plan include:

Investment return	7.5% per annum
Inflation	3.5% per annum
Salary increase rate	75% of inflation, plus merit and promotion
Cost of living increase	60% of inflation

The status of the Board's obligations is as follows:

	1997	1996
	(thousands of dollars)	
Senior Employees Pension Plan	\$ 8,063	\$ -
Public Service Pension Plan	1,809	2,886
Management Employees Pension Plan	672	574
Management Retiring Allowance Plan:		
Vested	598	675
Unvested	-	1,558
Supplementary benefit plan	1,146	-
Total pension obligation	12,288	5,693
Less unamortized	7,472	-
Recognized pension obligation	<u>\$ 4,816</u>	<u>\$ 5,693</u>

Note 7 Salaries and Benefits

	1997				1996	
	Full-time Equivalents	Salary ^(a)	Benefits and Allowances ^(b)	Total	Full-time Equivalents	Total
Chair	1.00	\$ 110,524	\$ 23,307	\$ 133,831	1.00	\$ 123,822
Board Member 1	1.00	92,655	26,041	118,696	1.00	121,703
Board Member 2 ^(c)	1.00	92,655	25,646	118,301	1.00	123,655
Board Member 3	1.00	83,063	26,936	109,999	0.83	99,426
Board Member 4 ^(c)	1.00	83,018	19,695	102,713	1.00	104,389
Board Member 5 ^(c)	1.00	90,145	9,964	100,109	1.00	112,615
Board Member 6	1.00	80,709	14,881	95,590	1.00	101,685
Board Member 7 ^(c)	1.00	78,099	14,307	92,406	1.00	92,601
Board Member 8	1.00	77,246	14,442	91,688	1.00	89,846
Board Member 9 ^(d)	-	-	-	-	0.42	52,303
Board Member 10 ^{(c), (d)}	-	-	-	-	0.25	36,587
Board Member 11 ^{(c), (d)}	-	-	-	-	0.17	19,386
Managers (average salary and benefits: 1997 \$95,839 1996 \$99,201)	45.03	3,439,594	876,050	4,315,644	43.14	4,279,511
Other full-time staff (average salary and benefits: 1997 \$52,373 1996 \$57,248)	554.63	24,343,946	4,703,754	29,047,700	517.82	29,644,298
Part-time and casual staff	70.36	1,682,006	202,602	1,884,608	63.88	1,742,732
Other costs ^(e)	-	-	(305,058)	(305,058)	-	400,208
	<u>679.02</u>	<u>\$ 30,253,660</u>	<u>\$ 5,652,567</u>	<u>35,906,227</u>	<u>634.51</u>	<u>37,144,767</u>
Severance and termination				255,621		214,296
Capitalization of salaries and benefits related to computer software development				(273,205)		(880,937)
				<u>\$ 35,888,643</u>		<u>\$ 36,478,126</u>

^(a) Salary includes regular base pay, overtime, lump sum payments, honoraria and other direct cash remuneration. During fiscal 1996, staff were compensated for prior years government equivalent salary adjustments with a lump sum payment and current salary adjustment totalling \$3,023,000.

^(b) Benefits and allowances include the Board's share of all employee benefits and contributions or payments made on behalf of employees including pension plan premiums, C.P.P., E.I., memberships, tuitions, personal computer purchase reimbursements, vacation paid, and flexible health benefits. Automobiles were provided to some Board members and field staff, but no amount is included in these figures.

- (c) Board members that have opted out of the Management Employees Pension Plan; benefit incremented in lieu of employer contributions.
- (d) Board members that have retired or terminated employment during the reporting period.
- (e) Includes Workers' Compensation Board premiums and changes in accrued vacation and pension obligations.

Note 8 Lease Commitments

The Board leases office premises and computer equipment with lease terms ranging up to four years. The Board also leases a research facility with a remaining lease term of ninety years.

The future minimum lease payments for the five succeeding fiscal years are as follows:

	(thousands of dollars)
1998	\$ 4,656
1999	\$ 4,569
2000	\$ 4,471
2001	\$ 3,113
2002	\$ 412

Note 9 Budget

The 1997 operating budget is presented for comparative purposes. The Energy Resources Fund budget was approved by the Board, and the Well Abandonment Fund budget was approved by the Fund's Advisory Committee and the Board.

Note 10 Comparative Figures

The 1996 figures have been reclassified where necessary to conform to 1997 presentation.

The 1996 fund accounting classifications have been modified to support Board restructuring. The previously reported Public Utilities Fund and EUB Reserve Fund have been combined with the Energy Resources Fund in the 1997 presentation.

Effective April 1, 1996 the Board assumed responsibility for the Department of Energy's geological surveying group. The comparative prior year figures have not been restated to reflect the operating cost of this new group.

Note 11 Approval of Financial Statements

These financial statements were approved by the Chair and the Chief Operating Officer.

ALBERTA ENERGY AND UTILITIES BOARD
SCHEDULE OF ASSETS, LIABILITIES AND SURPLUS BY FUND
AS AT MARCH 31, 1997
(thousands of dollars)

	Energy Resources		Well Abandonment		Total	
	1997	1996	1997	1996	1997	1996
Assets:						
Current:						
Cash (Note 3)	\$ 20,754	\$ 17,215	\$ 5,369	\$ 3,753	\$ 26,123	\$ 20,968
Accounts receivable	1,618	1,508	84	-	1,702	1,508
Prepaid expenses	464	432	-	-	464	432
	<u>22,836</u>	<u>19,155</u>	<u>5,453</u>	<u>3,753</u>	<u>28,289</u>	<u>22,908</u>
Capital assets (Note 4)	3,615	5,965	-	-	3,615	5,965
	<u>\$ 26,451</u>	<u>\$ 25,120</u>	<u>\$ 5,453</u>	<u>\$ 3,753</u>	<u>\$ 31,904</u>	<u>\$ 28,873</u>
Liabilities and surplus:						
Current:						
Accounts payable	\$ 1,431	\$ 1,758	\$ 2	\$ 251	\$ 1,433	\$ 2,009
Accrued vacation	3,289	2,733	-	-	3,289	2,733
	<u>4,720</u>	<u>4,491</u>	<u>2</u>	<u>251</u>	<u>4,722</u>	<u>4,742</u>
Funds held on behalf of others (Note 5)	2,647	1,135	-	-	2,647	1,135
Pension liability (Note 6)	4,816	5,693	-	-	4,816	5,693
	<u>12,183</u>	<u>11,319</u>	<u>2</u>	<u>251</u>	<u>12,185</u>	<u>11,570</u>
Surplus	14,268	13,801	5,451	3,502	19,719	17,303
	<u>\$ 26,451</u>	<u>\$ 25,120</u>	<u>\$ 5,453</u>	<u>\$ 3,753</u>	<u>\$ 31,904</u>	<u>\$ 28,873</u>

ALBERTA ENERGY AND UTILITIES BOARD
 SCHEDULE OF REVENUE, EXPENDITURE AND SURPLUS BY FUND
 FOR THE YEAR ENDED MARCH 31, 1997
 (thousands of dollars)

	Energy Resources		Well Abandonment		Total	
	1997	1996	1997	1996	1997	1996
Revenue:						
Industry levies and assessments	\$25,834	\$19,622	\$2,592	\$1,501	\$28,426	\$21,123
Applications and licences	13,393	11,121	1,010	740	14,403	11,861
Provincial contributions	12,830	18,488	-	-	12,830	18,488
Information and services	3,475	3,102	-	-	3,475	3,102
Interest	1,371	1,762	226	277	1,597	2,039
Miscellaneous	609	729	254	143	863	872
	<u>57,512</u>	<u>54,824</u>	<u>4,082</u>	<u>2,661</u>	<u>61,594</u>	<u>57,485</u>
Expenditure:						
Salaries and benefits (Note 7)	35,889	36,478	-	-	35,889	36,478
Building rental and maintenance	5,584	5,875	-	-	5,584	5,875
Capital assets expensed (Note 4)	2,438	1,307	-	-	2,438	1,307
Contract services	2,329	2,210	31	40	2,360	2,250
Computer services	2,226	2,548	-	-	2,226	2,548
Vehicle and equipment operating costs	2,197	1,554	-	-	2,197	1,554
Minor capital acquisitions	2,099	1,756	-	-	2,099	1,756
Well abandonment	-	4	2,098	2,180	2,098	2,184
Supplies	1,705	1,777	-	-	1,705	1,777
Travel and subsistence	1,025	960	-	1	1,025	961
Amortization	960	1,074	-	-	960	1,074
Miscellaneous	593	553	4	5	597	558
	<u>57,045</u>	<u>56,096</u>	<u>2,133</u>	<u>2,226</u>	<u>59,178</u>	<u>58,322</u>
Excess (deficiency) of revenue over expenditure	467	(1,272)	1,949	435	2,416	(837)
Surplus at beginning of year	13,801	15,073	3,502	3,067	17,303	18,140
Surplus at end of year	<u>\$14,268</u>	<u>\$13,801</u>	<u>\$5,451</u>	<u>\$3,502</u>	<u>\$19,719</u>	<u>\$17,303</u>

ALBERTA OIL SANDS TECHNOLOGY AND RESEARCH AUTHORITY
OIL SANDS TECHNOLOGY AND RESEARCH FUND
FINANCIAL STATEMENTS
MARCH 31, 1997

Auditor's Report
Balance Sheet
Statement of Revenue, Expenditure and Fund Balance
Statement of Changes in Financial Position
Notes to the Financial Statements

AUDITOR'S REPORT

To the Members of the Alberta Oil
Sands Technology and Research Authority

I have audited the balance sheet of the Alberta Oil Sands Technology and Research Authority - Oil Sands Technology and Research Fund as at March 31, 1997 and the statements of revenue, expenditure and fund balance, and changes in financial position for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting as described in Note 2 to the financial statements.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
June 13, 1997

ALBERTA OIL SANDS TECHNOLOGY AND RESEARCH AUTHORITY
OIL SANDS TECHNOLOGY AND RESEARCH FUND
BALANCE SHEET
AS AT MARCH 31, 1997

	1997	1996 (Restated Note 3)
ASSETS		
Current:		
Cash (Note 4)	\$ 17,630,368	\$ 8,022,594
Accounts receivable	1,420,008	991,796
	<u>19,050,376</u>	<u>9,014,390</u>
Operating advance (Note 5)	2,742,802	1,522,837
Capital assets (Note 6)	5,400,000	8,487,532
	<u>\$ 27,193,178</u>	<u>\$ 19,024,759</u>
LIABILITIES AND FUND BALANCE		
Current:		
Accounts payable	\$ 1,071,197	\$ 2,091,195
Holdbacks payable	210,834	283,209
	<u>1,282,031</u>	<u>2,374,404</u>
Accumulated provision for future project abandonment (Note 7)	4,133,000	3,405,000
	<u>5,415,031</u>	<u>5,779,404</u>
Fund balance	21,778,147	13,245,355
	<u>\$ 27,193,178</u>	<u>\$ 19,024,759</u>
Commitments (Note 8)		
The accompanying notes are part of these financial statements.		

ALBERTA OIL SANDS TECHNOLOGY AND RESEARCH AUTHORITY
OIL SANDS TECHNOLOGY AND RESEARCH FUND
STATEMENT OF REVENUE, EXPENDITURE AND FUND BALANCE
FOR THE YEAR ENDED MARCH 31, 1997

	1997		1996
	Budget	Actual	Actual
			(Restated Note 3)
Revenue:			
Contributions from the General Revenue Fund	\$ 12,200,000	\$ 13,500,000	\$ 8,450,000
Sale of bitumen	3,000,000	12,643,022	7,436,740
Contributions from project participants	3,501,000	3,501,000	3,501,000
Production revenue and recoveries	327,000	2,330,279	818,899
Sale of technology	1,000,000	210,129	8,070
	<u>20,028,000</u>	<u>32,184,430</u>	<u>20,214,709</u>
Expenditure:			
Underground access	8,400,000	8,952,801	5,701,121
Institutional research	3,085,000	2,369,390	2,237,556
Amortization	1,817,000	1,914,558	2,149,153
Enhanced recovery	1,267,000	923,786	659,601
Mining and extraction	1,695,000	728,841	599,744
Technology handling	442,000	500,713	372,508
Bitumen upgrading	700,000	130,503	59,129
In situ oil sands	4,969,000	120,314	257,052
Heavy oil	81,000	62,305	7,839
Training activities	60,000	56,780	81,456
International activities	75,000	39,804	(1,991)
Technology transfer and commercialization	258,000	34,308	1,254,270
Carbonate trend	30,000	20,884	5,957
Environment	1,140,000	7,289	(11,275)
Secretariat services	50,000	5,653	9,110
Miscellaneous project support	1,853,000	-	-
Write down of capital assets	-	7,783,709	-
	<u>25,922,000</u>	<u>23,651,638</u>	<u>13,381,230</u>
Excess (deficiency) of revenue over expenditure for the year	<u>\$ (5,894,000)</u>	8,532,792	6,833,479
Fund balance at beginning of year		13,245,355	6,411,876
Fund balance at end of year		<u>\$ 21,778,147</u>	<u>\$ 13,245,355</u>

ALBERTA OIL SANDS TECHNOLOGY AND RESEARCH AUTHORITY
OIL SANDS TECHNOLOGY AND RESEARCH FUND
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996 (Restated Note 3)
Operating activities:		
Excess of revenue over expenditure for the year	\$ 8,532,792	\$ 6,833,479
Non-cash charges		
Amortization	1,914,558	2,149,153
Provision for future project abandonment	728,000	800,000
Write down of capital assets	7,783,709	-
	18,959,059	9,782,632
(Increase) decrease in accounts receivable	(428,212)	1,530,754
Decrease in accounts and holdbacks payable	(1,092,373)	(1,317,547)
	17,438,474	9,995,839
Financing activity:		
Increase in operating advance	(1,219,965)	(1,522,837)
Investing activity:		
Purchase of capital assets	(6,610,735)	(10,200,294)
Net increase (decrease) in cash	9,607,774	(1,727,292)
Cash at beginning of year	8,022,594	9,749,886
Cash at end of year	<u>\$ 17,630,368</u>	<u>\$ 8,022,594</u>

ALBERTA OIL SANDS TECHNOLOGY AND RESEARCH AUTHORITY
OIL SANDS TECHNOLOGY AND RESEARCH FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997

Note 1 Authority and Purpose

The Alberta Oil Sands Technology and Research Authority (the "Authority") operates under the authority of the Oil Sands Technology and Research Authority Act (the "Act"), Chapter 0-6, Revised Statutes of Alberta 1980.

The Act created a corporation, the Alberta Oil Sands Technology and Research Authority, which consists of not less than three and not more than nine members appointed by the Lieutenant Governor. The Authority assists in the development of new technology for recovery and processing of petroleum from Alberta oil sands deposits and heavy crude reserves, and enhanced recovery of oil from conventional petroleum reservoirs.

Note 2 Significant Accounting Policies and Reporting Practices

(a) General

These financial statements have been prepared in accordance with generally accepted accounting principles except that costs in the amount of \$1,738,883 for salaries, accommodation and certain other administration costs incurred in the operation of the Authority have not been included in expenses. These costs are incurred and recorded by the General Revenue Fund of the Province of Alberta, Department of Energy.

(b) Capital Assets

Capital assets are recorded at cost, and are amortized on a straight-line basis over their estimated remaining useful lives. The estimated useful life of the assets that make up the Underground Test Facility ("UTF") is five years.

Provision for future project abandonment is made when costs are reasonably determinable.

Development costs for facilities and equipment are capitalized when the technical feasibility of technology is established and when estimated future revenues exceed estimated future expenditure.

Note 3 Restatement of 1996 Figures

The 1996 figures have been restated, affecting both the Balance Sheet and the Statement of Revenue, Expenditure, and Fund Balance. Restatement was required because:

- Advances paid to the operator of the Underground Test Facility were expensed rather than recorded as advances and adjustments to revenues, expenditures, and capital purchases.
- Revenues related to certain projects were not recorded in the proper year.

The impact of restatement is as follows:

	Original Balance	Restated Balance	Increase/ (Decrease)
Accounts receivable	\$ 4,263,829	\$ 991,796	\$ (3,272,033)
Operating advance	\$ -	\$ 1,522,837	\$ 1,522,837
Capital assets	\$ 8,487,518	\$ 8,487,532	\$ 14
Accounts payable	\$ 5,399,689	\$ 2,091,195	\$ (3,308,494)
Fund balance	\$ 11,686,043	\$ 13,245,355	\$ 1,559,312
Production revenue and recoveries	\$ 686,071	\$ 818,899	\$ 132,828
Underground access	\$ 7,127,605	\$ 5,701,121	\$ (1,426,484)
Excess of revenues over expenditure for the year	\$ 5,274,167	\$ 6,833,479	\$ 1,559,312

Note 4 Cash

Cash consists of deposits in the Consolidated Cash Investment Trust Fund of the Province of Alberta. The Consolidated Cash Investment Trust Fund is being managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term of five years. Interest earned on cash balances, in the amount of \$322,647 (1996 \$574,022), is credited to the General Revenue Fund, and is therefore not reflected in these financial statements.

Note 5 Related Party Transactions

The Authority owns the Underground Test Facility and entered into a contract with Gibson Petroleum Company Limited for the management of the Underground Test Facility effective October 1, 1995 to December 31, 1997. Management fees were paid to Gibson in the amount of \$668,728 for 1996-97. In the normal course of business Gibson purchased the bitumen production from the UTF in the amount of \$10,251,607 for 1996-97.

The operating advance is a non-interest bearing, unsecured loan given to the operator of the UTF in the amount of 25% of the estimated operating costs to be incurred during the contract. Repayment of the remaining advance will be made at the end of the contract.

Note 6 Capital Assets

	1997			1996
	Cost	Accumulated Amortization	Write down	Net Book Value
Underground Test Facility	<u>\$ 17,356,500</u>	<u>\$ 4,172,791</u>	<u>\$ (7,783,709)</u>	<u>\$ 5,400,000</u>
				<u>\$ 8,487,532</u>

The Authority owns the technology and assets (intangible drilling costs and equipment thereon) of the Underground Test Facility. Upon completion of an agreement between the Authority and nine industry participants, each industry participant is entitled to earn an 8 1/3% undivided interest in the UTF lease and capital assets. The UTF agreement is due to expire on December 31, 1997.

Note 7 Accumulated Provision for Future Project Abandonment

Under joint participation agreements, the Authority will incur certain costs when projects are abandoned. Management's estimate of future abandonment costs for the following projects is:

Underground Test Facility ^(a)	\$ 3,000,000
Taciuk facility	500,000
AMOCO GLISP	440,000
Norcen Bodo	20,000
Husky Kearle Lake	45,000
Unocal Buffalo Creek	120,000
Others	8,000
Total	<u>\$ 4,133,000</u>

^(a) Total estimated future abandonment costs are \$12,000,000. The Authority owns the project and associated assets, but has limited its liability to 25 percent of actual abandonment costs through an agreement with other participants.

Note 8 Commitments

The Authority has outstanding commitments as at March 31, 1997 totalling \$10,920,490 (1996 \$9,587,554) for approved projects.

Note 9 Salaries and Benefits

Information on salaries and benefits of the Authority's staff required under Treasury Board Directive 01-94 is included with information on the salary and benefits of the Department of Energy.

Note 10 Budget

The 1997 budget, reviewed by the Authority and approved by the Department of Energy, is presented for comparison with the 1997 actual figures.

Note 11 Approval of Financial Statements

These financial statements were approved by management.

ALBERTA PETROLEUM MARKETING COMMISSION
FINANCIAL STATEMENTS
DECEMBER 31, 1996

Auditor's Report
Balance Sheet
Statement of Operations
Notes to the Financial Statements

AUDITOR'S REPORT

To the Members of the
Alberta Petroleum Marketing Commission

I have audited the balance sheet of the Alberta Petroleum Marketing Commission as at December 31, 1996 and the statement of operations for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
May 30, 1997

ALBERTA PETROLEUM MARKETING COMMISSION
BALANCE SHEET
AS AT DECEMBER 31, 1996

ASSETS		
	1996	1995
	(thousands of dollars)	
Cash and short-term investments (Note 3)	\$ 10,864	\$ 12,684
Accounts receivable	158,886	232,389
Inventory held on behalf of the Province of Alberta	101,208	162,724
	<u>\$ 270,958</u>	<u>\$ 407,797</u>
LIABILITIES		
Accounts payable (Note 4)	\$ 270,958	\$ 407,797

The accompanying notes are part
of these financial statements.

ALBERTA PETROLEUM MARKETING COMMISSION
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1996

	1996	1995
	(thousands of dollars)	
Revenue from crude oil sales (Note 5)	\$ 2,353,989	\$ 1,930,585
Expenditures		
Purchases under exchange agreements	54,570	105,868
Other crude oil purchases	804,102	515,190
Transportation	100,664	103,432
Marketing and administration	4,327	4,534
	<u>963,663</u>	<u>729,024</u>
Excess of revenue over expenditures	1,390,326	1,201,561
Less net revenue to others on sale of synthetic oil (Note 6)	<u>-</u>	<u>18,736</u>
	<u>1,390,326</u>	<u>1,182,825</u>
Other revenue		
Contributions from the Province of Alberta	2,660	3,219
Interest earned	1,118	1,216
Other	74	384
Reduction of accrued pension liability	661	-
	<u>4,513</u>	<u>4,819</u>
Net revenue to transfer to the General Revenue Fund	<u>\$ 1,394,839</u>	<u>\$ 1,187,644</u>

ALBERTA PETROLEUM MARKETING COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1996

Note 1 Authority

The Alberta Petroleum Marketing Commission (the "Commission") operates under the authority of the Petroleum Marketing Act, Chapter P-5, Revised Statutes of Alberta 1980, as amended, and the Natural Gas Marketing Act, Chapter N-2.8, Statutes of Alberta 1986, as amended. This legislation designates the Commission as agent of the Province of Alberta to accept delivery of and market the Crown royalty share of crude oil.

Included in revenue and expenditures are sales and purchases in support of alternative markets programs designed to optimize the allocation of pipeline capacity in periods of market disruptions and apportionment.

In the February 1994 Speech from the Throne, the Lieutenant Governor announced a major restructuring of the Energy Ministry. All the responsibilities of the Commission, except those directly related to crude oil marketing, were transferred to the Department of Energy (the "Department"), effective April 1, 1995. On March 31, 1996, the Commission entered into agreements with agents for the marketing of the Crown royalty share of crude oil effective June 1, 1996.

During 1996, the Department assumed the responsibility for the administration of the Commission. Certain salary costs, accommodation and other overhead costs incurred in the administration of the Commission were borne by the Department. Similarly, the Commission provided certain services for the Department for which no fees were charged. These amounts are not readily ascertainable and accordingly are not reflected in these financial statements.

Note 2 Significant Accounting Policies

(a) Inventory

Inventory of conventional and synthetic oil in feeder and trunk pipelines represents inventories received on behalf of the Province and, at the balance sheet date, not recognized in the Commission's sales. Inventories are stated at net realizable value.

(b) Marketing Expenditure

Marketing expenditure includes fees paid to agents and administration costs incurred by the Commission.

(c) Financial Instruments

Currency and price risks are inherent in the sale and purchase of crude oil. The agents remit sales proceeds to the Commission in Canadian funds and convert foreign currencies to Canadian funds at daily or average monthly rates on or near payment due date. The agents may use operational oil price hedging to address risk. The fair values of the Commission's assets and liabilities approximate their carrying values as at December 31, 1996.

(d) Changes in Financial Position

A statement of changes in financial position is not provided as disclosure in these financial statements is considered adequate.

Note 3 Cash and Short-term Investments

Cash and short-term investments includes deposits in the Consolidated Cash Investment Trust Fund (the "Fund") of the Province of Alberta. The Fund is invested primarily in securities maturing in less than one year which are either issued or guaranteed by Canadian federal and provincial governments, deposits with or guaranteed by chartered banks, or short-term investment-grade-quality notes of Canadian corporations. Interest is earned on the daily cash balance at the average rate of earnings of the Fund which varies depending on prevailing market interest rates.

Note 4 Accounts Payable

	1996	1995
	(thousands of dollars)	
Payable to the Province of Alberta		
Royalty share	\$ 238,704	\$ 236,319
Equity in capital assets	-	315
	<u>238,704</u>	<u>236,634</u>
Payable to others		
Transportation and purchases	30,332	141,948
Synthetic oil (Note 6)	-	18,736
Goods and services tax	1,880	9,456
Accrued pension liability	-	661
Trade	42	245
Accrued vacation pay	-	117
	<u>\$ 270,958</u>	<u>\$ 407,797</u>

Historically, the Commission participated with other public sector employers in two defined benefit pension plans. The Public Service Pension Plan and the Management Employees Pension Plan provide pensions for the Commission's employees based on length of service and earnings. The employers' portion of the unfunded liability of these plans was allocated based on pensionable earnings. As at December 31, 1996, the Commission had no employees and therefore no accrued pension liability.

Note 5 Revenue from Crude Oil Sales

	1996	1995
	(thousands of dollars)	
Crown royalty share	\$ 1,379,212	\$ 1,116,703
Sales for alternative markets initiatives	920,185	508,473
Sales under exchange agreements	54,592	105,868
Crown equity share	-	199,541
	<u>\$ 2,353,989</u>	<u>\$ 1,930,585</u>

Note 6 Sale of Province's Share in Syncrude Canada Project

On November 30, 1995, the Province of Alberta sold its 11.74% interest in the Syncrude Canada Project, effective June 1, 1995. The purchaser's share of the December 1995 production was marketed on their behalf by the Commission. The Accounts of the Commission reflect these transactions.

Note 7 Budget

The Commission's budget for the administrative costs it would incur for the year ended December 31, 1996 was \$2,759,000 (1995 \$3,490,000). This budget was approved by the Department of Energy.

Note 8 Commitments

The Commission has allocated a portion of its anticipated pipeline requirements to firm transportation agreements of up to fifteen years. These agreements obligate the Commission to pay tariff charges for contracted volumes in accordance with contract rates. The aggregate estimated commitment of \$175,000,000 for the fifteen year period starting in 1997, will be paid from future oil royalty revenue. Costs for these pipeline services are expected to be within the range of normal transportation costs.

Note 9 Comparative Figures

The 1995 comparative figures have been reclassified where necessary to conform to 1996 presentation.

Note 10 Approval of Financial Statements

These financial statements have been approved by the Commission.

ALBERTA SPECIAL WASTE MANAGEMENT CORPORATION
FINANCIAL STATEMENTS
MARCH 31, 1997

Auditor's Report
Balance Sheet
Statement of Revenue, Expense and Deficit
Statement of Changes in Financial Position
Notes to the Financial Statements
Schedule of Operating and Administrative Expense

AUDITOR'S REPORT

To the Minister of Environmental Protection

I have audited the balance sheet of the Alberta Special Waste Management Corporation as at March 31, 1997 and the statements of revenue, expense and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
May 26, 1997

ALBERTA SPECIAL WASTE MANAGEMENT CORPORATION
BALANCE SHEET
AS AT MARCH 31, 1997
(in thousands)
(Note 3)

	1997	1996
ASSETS		
Current:		
Cash (Note 5)	\$ 2,238	\$ 2,679
Accounts receivable	31	17
Prepaid expenses	3	4
	<u>2,272</u>	<u>2,700</u>
Capital assets (Note 6)	1,144	1,210
	<u>\$ 3,416</u>	<u>\$ 3,910</u>
LIABILITIES AND DEFICIT		
Current liabilities:		
Accounts payable and accruals	\$ 311	\$ 517
Provision for warehouse site restoration (Note 10 (b))	500	1,100
	<u>811</u>	<u>1,617</u>
Pension liability (Note 7)	46	118
Obligation for cell monitoring and remediation (Note 4)	1,105	1,105
Provision for future removal and site restoration (Note 10 (a))	8,950	8,175
	<u>10,101</u>	<u>9,398</u>
Deficit	(7,496)	(7,105)
	<u>\$ 3,416</u>	<u>\$ 3,910</u>

The accompanying notes and schedule are part
of these financial statements.

ALBERTA SPECIAL WASTE MANAGEMENT CORPORATION
STATEMENT OF REVENUE, EXPENSE AND DEFICIT
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands)
(Note 3)

	1997	1996
Operating revenue:		
Grant from the General Revenue Fund	\$ -	\$ 168,988
Interest earnings	110	156
Rental income	77	100
Income from Joint Venture (Note 4)	24	-
Other	13	18
	<u>224</u>	<u>169,262</u>
Operating expense:		
Contribution to Joint Venture operations	-	11,207
Operating and administrative (Schedule 1)	602	1,012
	<u>602</u>	<u>12,219</u>
Excess (deficiency) of revenue over expense before the following:	(378)	157,043
Revision of estimated costs of discontinuance (Note 2(a)):		
Reversal of prior year's estimated costs	807	(6,495)
Current year's estimated costs	(45)	(2,492)
	<u>762</u>	<u>(8,987)</u>
Write down of investment in the Joint Venture and related capital assets	-	(32)
Provision for future removal and site restoration (Note 10(a))	(775)	(675)
Excess (deficiency) of revenue over expense for the year	(391)	147,349
Deficit at beginning of year	(7,105)	(154,454)
Deficit at end of year	<u>\$ (7,496)</u>	<u>\$ (7,105)</u>

ALBERTA SPECIAL WASTE MANAGEMENT CORPORATION
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands)

	1997	1996
Operating activities:		
Excess (deficiency) of revenue over expense for the year	\$ (391)	\$ 147,349
Non-cash items:		
Change in pension liability	(72)	(11)
Amortization (Schedule 1)	66	66
Net write down of capital assets	-	31
Write down of investment in Joint Venture	-	1
Provision for future removal and site restoration	775	675
	<u>378</u>	<u>148,111</u>
Increase in accounts receivable	(14)	(17)
Decrease in prepaid expenses	1	4
Decrease in due to the Joint Venture	-	(5,990)
Decrease in current liabilities	(806)	(140,702)
Cash (used in) provided by operating activities	<u>(441)</u>	<u>1,406</u>
Investing activities:		
Cell monitoring and remedial fund received from the Joint Venture (Note 4)	-	1,105
Proceeds from disposal of capital assets	-	2
Cash provided by (used in) investing activities	<u>-</u>	<u>1,107</u>
Increase (decrease) in cash	(441)	2,513
Cash at beginning of year	2,679	166
Cash at end of year	<u>\$ 2,238</u>	<u>\$ 2,679</u>

ALBERTA SPECIAL WASTE MANAGEMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997

Note 1 Authority and Purpose

The Alberta Special Waste Management Corporation ("ASWMC") operates under the authority of the Special Waste Management Act, Chapter S-21.5, Statutes of Alberta 1982, as amended. ASWMC's approved purpose is to promote the establishment and operation of cost-effective special waste management solutions in Alberta and beyond which protect public health and safety, and enhance environmental quality.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Discontinuance of Operations

The estimated costs of discontinuance on the Statement of Revenue, Expense and Deficit for the 1996 and 1997 years includes estimates of the revenue and expense until the complete discontinuance of operations of ASWMC. Also see Note 3.

(b) Amortization

The depreciable capital assets (warehouse buildings) are amortized on a straight-line basis over their estimated useful lives of 20 years.

(c) Pension Costs

Pension costs comprises: the cost of pension benefits earned by employees during the year; interest on ASWMC's share of the unfunded pension liability; the amortization of deferred adjustments over the expected average remaining service life of employees which relate to the long-term; adjustments to the pension obligation recognized immediately if there is reasonable assurance that a gain or loss has been realized; and the effect of the change in the ratio used to allocate the plan's total unfunded liability to participating entities. The net expense or recovery is included as part of salaries and group benefits expenses in the Schedule of Operating and Administrative Expense. Also see Note 7.

Note 3 Discontinuance of Operations

(a) Background

Until June 30, 1995, ASWMC pursued its objectives through community waste programs and a 40% interest in the Alberta Special Waste Management System Joint Venture (the "Joint Venture") which is in the business of treating and disposing of special waste at its facility near Swan Hills, Alberta. BOVAR (Swan Hills) Limited Partnership ("BOVAR") owned the other 60% and the Joint Venture was operated by Chem-Security (Alberta) Ltd. (the "operator"), an indirect wholly-owned subsidiary of BOVAR.

With effect from July 1, 1995, 542936 Alberta Ltd., which was wholly-owned by ASWMC, assumed the rights and certain obligations of ASWMC with respect to the Joint Venture including the obligation for system contributions payable after June 30, 1995. Such contributions were required to cover any annual operating losses and to provide both ASWMC and BOVAR with a guaranteed return on their investment.

(b) Negotiations with BOVAR

Effective July 12, 1996, the shares of 542936 Alberta Ltd. were sold to BOVAR for a nominal amount. The Province was released from all obligations related to the Joint Venture, except for the obligation to reclaim the site (see Note 10 (a)) and cell monitoring (see Note 4). Should certain conditions with respect to profitability or sale of assets of the Joint Venture be met, ASWMC is entitled to receive a share of the net income or proceeds realized for the period commencing July 13, 1996 up to and including the year ended December 31, 2003. The percentage amount of the share to which ASWMC is entitled, either decreases annually or to a minimum base.

Note 4 Joint Venture Operations

Revenue Sharing Formula

ASWMC shares in net income of the Joint Venture on a scale declining from 40% in 1996 to 10% in 1999 through 2003. Net income is calculated under a formula which excludes depreciation and amortization and provides for management fees and income taxes calculated on a rate applicable to an Alberta-based public company. A positive net income was recorded by the Joint Venture for the period July 13 to December 31, 1996.

ASWMC also shares in the net proceeds from the sale of certain fixed assets on a scale declining from 100% in 1996 to 10% in 2003. There have been no disposals which would result in amounts payable under this agreement.

Cell Monitoring and Remedial Fund

This fund was established jointly by BOVAR and ASWMC in an initial amount of \$1 million and is to be used to maintain the integrity of the landfill cells by funding any required repairs or maintenance.

Under the terms of the Definitive Agreement which was signed in November 1995, ASWMC received all monies contained in the cell monitoring and remedial fund and assumed all financial liabilities for which the fund was established.

Note 5 Cash

Cash consists of investment in the Consolidated Cash Investment Trust Fund. The Consolidated Cash Investment Trust Fund is being managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term of five years.

Note 6 Capital Assets

	1997		1996	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
(in thousands)				
Alberta Special Waste Treatment Centre:				
Land	\$ 74	\$ -	\$ 74	\$ 74
Warehouse properties:				
Buildings	1,320	330	990	1,056
Land	80	-	80	80
	<u>\$ 1,474</u>	<u>\$ 330</u>	<u>\$ 1,144</u>	<u>\$ 1,210</u>

Note 7 Pension Liability

ASWMC has participated with other employers in two defined benefit pension plans. These plans provide pensions for employees based on length of service and earnings.

ASWMC had an unfunded pension liability for each plan as at March 31 which was estimated as follows:

	1997	1996
	(in thousands)	
Public Service Pension Plan	\$ -	\$ 8
Management Employees Pension Plan	46	110
	<u>\$ 46</u>	<u>\$ 118</u>

The total unfunded pension liability for the Management Employees Pension Plan was determined by actuarial valuations as at December 31, 1994 and extrapolated to March 31, 1997. The comparative figures for 1996 were determined by actuarial valuations at December 31, 1993 for the Public Service Pension Plan and as at December 31, 1994 for the Management Employees Plan, both extrapolated to March 31, 1996.

The actuarial valuations were determined using the projected benefit method prorated on service. Assumptions used in the valuations are based on the Pension Board's best estimate of future events. The plan's future experience will inevitably differ, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will be amortized over the expected average remaining service life of the employee group.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded liability for each plan which will be funded by employers. ASWMC's portion of these employers' liabilities was based on ASWMC's percentage of the total pensionable payroll of all employers.

ASWMC's portion of the unfunded liability relating to the Public Service Pension Plan as at March 31, 1997 has been adjusted to reflect the reduction in staff that occurred during the year. Upon the wind-up of ASWMC, its portion of the unfunded pension liability will be allocated to other employers in the plans.

Note 8 Related Party Transactions

ASWMC provided administrative services to 542936 Alberta Ltd. amounting to \$6,000 during the year (1996 \$17,400), all of which was paid to ASWMC before March 31, 1997.

ASWMC received \$28,051 (1996 \$100,000) from the Joint Venture in respect of commercial transactions in the ordinary course of business.

Note 9 Staff Compensation

Salaries and related benefits paid to or on behalf of ASWMC staff for the year were as follows:

	1997				1996	
	Number of Individuals ⁽¹⁾	Salary ⁽²⁾	Benefits and Allowances ⁽³⁾	Total	Number of Individuals ⁽¹⁾	Total
Board members ⁽⁴⁾	6	\$ 14,263	\$ 311	\$ 14,574	6	\$ 20,958
President and Chief Executive Officer ⁽⁵⁾	1	-	-	-	1	-
Vice President, Finance and Chief Financial Officer	1	76,889	32,017	108,906	1	91,815
Director, Environmental and Technical Services	-	-	-	-	1	41,008
Other full-time staff ⁽⁶⁾ (average 1997 \$22,348, 1996 \$30,271)	1	17,940	4,408	22,348	2	60,541
		<u>\$109,092</u>	<u>\$ 36,736</u>	<u>\$145,828</u>		<u>\$214,322</u>

⁽¹⁾ Number of employees includes all employees whether employed for a full or partial year.

⁽²⁾ Salary includes regular base pay.

⁽³⁾ ASWMC's share of all employee benefits and contributions or payments made on behalf of employees including vacation pay, pension, health care, dental coverage, group life insurance, short and long-term disability plan, professional memberships, and tuition.

⁽⁴⁾ Term of appointment completed January 31, 1997.

⁽⁵⁾ Position became unpaid on December 31, 1994.

⁽⁶⁾ Full time staff consists of all individuals working 29 hours or more per week. One support staff position was abolished October 11, 1996.

Note 10 Provision for Future Removal and Site Restoration

(a) Swan Hills facility

Under the Definitive Agreement, ASWMC continues to be responsible for all site remediation that may be required upon closure of the Swan Hills facility. An agreement with the Province of Alberta requires ASWMC to restore the property to stated reclaimed standards.

In March 1995, an independent consultant tested the amount of contamination of the plant site, excluding the underdrain system located under the retention pond liner, the landfill areas and cells. The consultant's preliminary report indicated that the estimated cost of decontaminating the area tested was approximately \$100,000. The consultant further estimated that the cost of decommissioning the plant could range from \$31 million to \$57 million. \$42 million is considered a reasonable estimate of the decommissioning cost, representing the mid-point of the range after deducting the plant's estimated salvage value.

The \$8,950,000 accumulated provision for future removal and site restoration on the balance sheet represents the net present value of the \$42 million estimate for decommissioning and the \$100,000 for decontamination remediation, assuming an eighteen year remaining operating life for the plant and using a discount rate of 8.98%. Because assumptions can change, as can the decontamination or decommissioning methods used, these costs could decrease or increase by a material amount.

(b) Other

In addition to the Swan Hills facility, ASWMC owns two adjacent warehouse properties in Nisku, Alberta, which have been used as a transfer station and a storage location for various types of hazardous waste. A further provision of \$500,000 has been established representing management's estimate of future clean-up costs.

Note 11 Contingent Liability

ASWMC has been named defendant in a lawsuit and received a claim in the amount of \$700,000 for alleged breach of a certain lease agreement. Although ASWMC believes it has made adequate provision in its accounts for these proceedings, any amount awarded in excess of the amount accrued would be accounted for in the year when the award is finalized.

Note 12 Comparative Figures

Certain 1996 figures have been reclassified to conform to the 1997 presentation.

Note 13 Subsequent Event

On April 22, 1997, the Minister of Alberta Environmental Protection introduced Bill No. 2, the Special Waste Management Corporation Act Repeal Act to the Legislature. This bill received royal assent on May 29, 1997 and upon its proclamation, the Crown in the right of Alberta will assume the rights, property and assets and be liable for the obligations and liabilities of ASWMC.

Note 14 Approval of Financial Statements

These financial statements were approved by management.

Schedule 1

ALBERTA SPECIAL WASTE MANAGEMENT CORPORATION
SCHEDULE OF OPERATING AND ADMINISTRATIVE EXPENSE
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands)

	1997	1996
Professional fees	\$ 216	\$ 490
Warehousing	214	43
Amortization of capital assets	66	66
Salaries and group benefits	42	182
Employee severance plans	20	5
Members' honoraria and expenses	16	23
Swan Hills off-site services	12	142
Office expenses	8	28
Miscellaneous	3	10
Advertising and promotion	2	10
Staff travel	2	9
External consultants	1	4
	<u>\$ 602</u>	<u>\$ 1,012</u>

NATURAL RESOURCES CONSERVATION BOARD
FINANCIAL STATEMENTS
MARCH 31, 1997

Auditor's Report
Balance Sheet
Statement of Revenue, Expense and Operating Surplus
Statement of Changes in Financial Position
Notes to the Financial Statements

AUDITOR'S REPORT

To the Members of the
Natural Resources Conservation Board

I have audited the balance sheet of the Natural Resources Conservation Board as at March 31, 1997 and the statements of revenue, expense and operating surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
May 12, 1997

NATURAL RESOURCES CONSERVATION BOARD
BALANCE SHEET
MARCH 31, 1997

	1997	1996
ASSETS		
Current		
Cash (Note 3)	\$ 1,101,650	\$ 891,478
Accounts receivable	14,006	17,610
	<u>1,115,656</u>	<u>909,088</u>
Capital assets (Note 4)	181,228	89,910
	<u>\$ 1,296,884</u>	<u>\$ 998,998</u>
LIABILITIES AND OPERATING SURPLUS		
Current		
Accounts payable	\$ 55,764	\$ 32,047
Pension liability (Note 5)	54,744	61,954
Accumulated operating surplus	1,186,376	904,997
	<u>\$ 1,296,884</u>	<u>\$ 998,998</u>

The accompanying notes are part
of these financial statements.

NATURAL RESOURCES CONSERVATION BOARD
STATEMENT OF REVENUE, EXPENSE AND OPERATING SURPLUS
FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
	Budget (Note 6)	Actual Actual
Revenue		
Grants from the General Revenue Fund	\$ 1,505,000	\$ 1,005,000
Interest	115,000	83,273
Other	3,000	1,742
	<u>1,623,000</u>	<u>1,090,015</u>
Expense		
Salaries and employee benefits (Note 7)	923,000	604,752
Consulting and professional fees	270,000	82,665
Amortization of capital assets	29,224	31,637
Transcripts and office	189,200	31,473
Technical proficiency and training (Note 7)	22,000	20,424
Travel and automobile	94,950	11,992
Advertising	14,500	11,375
Telephone	12,000	10,848
Postage, freight and courier	7,450	1,490
Hosting and promotion	1,500	1,260
Rent	8,200	720
Miscellaneous	2,200	-
	<u>1,574,224</u>	<u>808,636</u>
Operating surplus (deficit) for the year	<u>\$ 48,776</u>	<u>281,379</u>
Operating surplus at beginning of year		983,238
Operating surplus at end of year		<u>\$ 904,997</u>

NATURAL RESOURCES CONSERVATION BOARD
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
Cash provided by (used in)		
Operating activities		
Operating surplus (deficit)	\$ 281,379	\$ (78,241)
Non-cash expense:		
Amortization	31,637	101,018
(Decrease) increase in pension liability	(7,210)	2,096
	<u>305,806</u>	<u>24,873</u>
Change in non-cash working capital		
Accounts receivable	3,604	15,199
Accounts payable	23,717	(29,852)
	<u>333,127</u>	<u>10,220</u>
Investing activities		
Acquisitions of capital assets	(122,955)	(19,940)
Net increase in cash	210,172	(9,720)
Cash at beginning of year	891,478	901,198
Cash at end of year	<u>\$ 1,101,650</u>	<u>\$ 891,478</u>

NATURAL RESOURCES CONSERVATION BOARD
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997

Note 1 Authority and Purpose

The Natural Resources Conservation Board (the "Board") operates under the authority of the Natural Resources Conservation Board Act, chapter N-5.5, Statutes of Alberta 1990. The Board provides an impartial process to review projects that will or may affect the natural resources of the Province of Alberta.

Note 2 Significant Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles.

(a) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Assets are amortized over their estimated useful lives commencing in the month following acquisition, using the following annual rates and methods:

Computer hardware	- 3 year straight-line
Computer software	- 100% straight-line
Office equipment	- 20% declining balance
Office furniture	- 20% declining balance

(b) Revenue Recognition

Operating grants are recorded as revenue in the years for which they are approved.

(c) Pension Costs

Pension costs comprises: the cost of pension benefits earned by employees during the year; interest on the Board's share of the unfunded pension liability; the amortization of deferred adjustments over the expected average remaining service life of employees which relate to the long term; adjustments to the pension obligation recognized immediately if there is reasonable assurance that a gain or loss has been realized; and the effect of the change in the ratio used to allocate the plan's total unfunded liability to participating entities. The net expense or recovery is included as part of salaries and benefits.

Note 3 Cash

Cash includes \$1,101,550 (1996 \$891,378) invested in the Consolidated Cash Investment Trust Fund. The Consolidated Cash Investment Trust Fund is being managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term of five years.

Note 4 Capital Assets

	1997			1996
	Cost	Accumulated Amortization	Net	Net
Computer hardware	\$ 260,043	\$ 150,483	\$ 109,560	\$ 22,771
Computer software	45,949	37,041	8,908	598
Office equipment	36,417	17,671	18,746	12,691
Office furniture	117,080	73,066	44,014	53,850
	<u>\$ 459,489</u>	<u>\$ 278,261</u>	<u>\$ 181,228</u>	<u>\$ 89,910</u>

Note 5 Pension Liability

All eligible employees of the Board, except the Chairman, are members of a defined contribution pension plan administered by the Board and managed by Mutual Life of Canada.

The Chairman is a member of the Management Employees Pension Plan which is a defined benefit plan. This plan will provide a pension based on length of service and earnings. The pension liability of the Board as at March 31, 1997 under this plan was estimated at \$54,744 (1996 \$61,954).

The total unfunded pension liability for this plan was determined by an actuarial valuation as at December 31, 1994, and extrapolated to March 31, 1997. The 1996 comparative amount was based on the same actuarial valuation, extrapolated to March 31, 1996.

The actuarial valuation was determined using the projected benefit method prorated on service. Assumptions used in the valuation were based on the Pension Board's best estimate of future events. The Plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will be amortized over the expected average remaining service life of the employee group. Gains and losses for which there is reasonable assurance regarding their measurement and realization are recognized in income immediately.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded liability for each plan which will be funded by employers. The Board's portion of the liability was based on the Board's percentage of the total pensionable payroll of all employees in each Plan.

Note 6 Budget

The 1996-97 budget was approved by the Board on May 1, 1996.

Note 7 Salaries and Benefits

	1997				1996	
	Number of Individuals ⁽⁷⁾	Salary ⁽¹⁾	Benefits and Allowances ⁽²⁾	Total	Number of Individuals	Total
Chairman of the Board ⁽³⁾	1.0	\$ 94,984	\$ 15,681	\$110,665	1	\$110,543
Board member	0.2	13,154	2,807	15,961	1	83,689
Executive Manager, Operations	1.0	79,801	13,324	93,125	1	102,493
Solicitor	1.0	72,818	15,626	88,444	1	89,006
Other managers (average 1997 \$70,671, 1996 \$73,610)	2.8	156,788	41,092	197,880	3.8	279,718
Other full-time staff (average 1997 \$36,922, 1996 \$35,104)	3.0	90,902	19,863	110,765	3	105,311
		<u>508,447</u>	<u>108,393</u>	<u>616,840</u>		<u>770,760</u>
Acting Board members ⁽⁴⁾	0.1	7,650	-	7,650		-
Miscellaneous adjustments ⁽⁵⁾	-	-	686	686		18,575
		<u>\$516,097</u>	<u>\$ 109,079</u>	<u>\$625,176</u> ⁽⁶⁾		<u>\$789,335</u>

(1) Salary includes regular base pay, lump sum payments and other direct cash remuneration.

(2) The Board's share of all employee benefits and contributions or payments made on behalf of employees including Canada Pension Plan and Board pension contributions, Employment Insurance Commission contributions, supplementary medical coverage, dental coverage, 24 hour medical benefits, group life insurance, accidental death and dismemberment insurance, long-term disability plan premiums, professional memberships, course fees, and vacation pay payouts paid. The Board is a participant in the Alberta Energy and Utilities Board medical, dental and life insurance benefit plans.

(3) The Chairman of the Board is provided with an automobile for which no amount is included in the benefits and allowances figure.

(4) Acting Board members are paid on the basis of contractual arrangements.

- (5) Miscellaneous adjustments include Workers' Compensation Board fees, decrease in the unfunded pension liability, pension fund administration fees, and conference fees and expenses.
- (6) The total amount represents the cumulative total of salaries and employee benefits \$604,752 and Technical proficiency and training \$20,424.
- (7) The number of individuals shown reflects a proration for individuals not employed for the whole year.

Note 8 Related Party Transactions

In addition to the grants received from the General Revenue Fund, the Board incurred expenses of \$28,733 (1996 \$11,979) for goods and services provided by other government departments and agencies.

Note 9 Approval of Financial Statements

These financial statements were approved by the Board.

TIRE RECYCLING MANAGEMENT BOARD
FINANCIAL STATEMENTS
OCTOBER 14, 1996

Auditor's Report
Balance Sheet
Statement of Revenue, Expense and Surplus
Statement of Changes in Financial Position
Notes to the Financial Statements

AUDITOR'S REPORT

To the Members of the Tire Recycling Management Board

I have audited the balance sheet of the Tire Recycling Management Board as at October 14, 1996 and the statements of revenue, expense and surplus and changes in financial position for the period April 1, 1996 to October 14, 1996. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at October 14, 1996 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
March 19, 1997

TIRE RECYCLING MANAGEMENT BOARD
BALANCE SHEET
AS AT OCTOBER 14, 1996

	October 14, 1996 (Note 1)	March 31, 1996
ASSETS		
Current:		
Cash	\$ -	\$ 20,246,145
Accounts receivable and prepayments	-	1,277,447
	-	21,523,592
Capital assets	-	53,395
	<u>\$ -</u>	<u>\$ 21,576,987</u>
LIABILITIES AND SURPLUS		
Current:		
Payable to recyclers	\$ -	\$ 808,816
Accounts payable and accruals	-	201,967
	-	1,010,783
Surplus	-	20,566,204
	<u>\$ -</u>	<u>\$ 21,576,987</u>

The accompanying notes are part
of these financial statements.

TIRE RECYCLING MANAGEMENT BOARD
STATEMENT OF REVENUE, EXPENSE AND SURPLUS
FOR THE PERIOD ENDED OCTOBER 14, 1996

	Six and one half months ended October 14, 1996		Twelve months ended March 31, 1996
	Budget (Note 7)	Actual	Actual
Revenue:			
Advance disposal surcharges (Note 4)	\$ 4,658,333	\$ 4,948,076	\$ 8,843,474
Interest	595,833	557,568	1,259,110
	<u>5,254,166</u>	<u>5,505,644</u>	<u>10,102,584</u>
Expense:			
Program:			
Payments to recyclers (Note 1)	3,663,021	5,188,333	5,232,987
Surcharge collection costs (Note 5)	121,875	79,121	189,330
Recycling development (Note 1)	699,563	205,310	217,265
	<u>4,484,459</u>	<u>5,472,764</u>	<u>5,639,582</u>
Administration:			
Staff and contracted services compensation (Note 5)	156,813	183,400	248,975
Developmental consulting services	37,917	53,783	116,105
Board expenses (Note 5)	84,208	110,359	164,906
Legal and audit services	51,458	130,427	139,718
Office support	55,250	83,700	119,188
Communication services	16,250	22,461	17,046
Amortization	8,125	7,664	18,654
Bad debts	-	-	2,603
	<u>410,021</u>	<u>591,794</u>	<u>827,195</u>
Total expense	<u>4,894,480</u>	<u>6,064,558</u>	<u>6,466,777</u>
Excess (deficiency) of revenue over expense	<u>\$ 359,686</u>	<u>(558,914)</u>	<u>3,635,807</u>
Surplus at beginning of period		20,566,204	16,930,397
		20,007,290	20,566,204
Transfers to the Environmental Protection and Enhancement Fund and the Tire Recycling Management Association (Note 1)		(20,007,290)	-
Surplus at end of period (Note 1)		<u>\$ -</u>	<u>\$ 20,566,204</u>

TIRE RECYCLING MANAGEMENT BOARD
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE PERIOD ENDED OCTOBER 14, 1996

	Six and one half months ended October 14, 1996	Twelve months ended March 31, 1996
Operating activities:		
Excess (deficiency) of revenue over expense	\$ (558,914)	\$ 3,635,807
Non-cash charges:		
Amortization	7,664	18,654
	<u>(551,250)</u>	<u>3,654,461</u>
Changes in non-cash working capital items (Note 1):		
Increase in accounts receivable and prepayments	(732,145)	(105,102)
Increase (decrease) in payable to recyclers	(81,864)	628,872
Increase in accounts payable and accruals	433	77,991
	<u>(1,364,826)</u>	<u>4,256,222</u>
Investing activities:		
Acquisition of capital assets	(2,118)	(10,998)
Increase (decrease) in cash	(1,366,944)	4,245,224
Cash at beginning of period	20,246,145	16,000,921
Transfer of cash to the Environmental Protection and Enhancement Fund (Note 1)	(18,879,201)	-
Cash at end of period	<u>\$ -</u>	<u>\$ 20,246,145</u>

TIRE RECYCLING MANAGEMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 14, 1996

Note 1 Authority and Purpose

The Tire Recycling Management Board (the "Board") operated under the authority of the Environmental Protection and Enhancement Act, Chapter E-13.3, Statutes of Alberta, 1992, pursuant to the Tire Recycling and Management Regulation, Alberta Regulation 249/92, as amended. The purpose of the Board was to administer the Tire Recycling and Management Fund to provide for the effective, efficient and economical waste minimization and recycling of scrap tires in accordance with sound environmental principles.

Effective October 15, 1996, the Tire Recycling and Management Regulation, Alberta Regulation 206/96, repealed Alberta Regulation 249/92 and transferred the responsibilities of the Board to the Tire Recycling Management Association of Alberta (the "TRMA"). The regulation required all cash and securities held in an amount equal to the surplus of the Tire Recycling Management Fund, to be transferred to the Environmental Protection and Enhancement Fund (the "EPEF"). All other assets, liabilities and obligations were transferred to the TRMA established as a management board within the meaning of section 168(ff) of the Environmental Protection and Enhancement Act.

The Board's surplus at October 14, 1996 was \$20,007,290. On October 11, 1996, \$18,879,201 was paid equal to the amount of cash available to the EPEF. The remaining \$1,128,089 was paid in March 1997.

In an agreement effective October 11, 1996, the Minister of Environmental Protection agreed to remit, to the TRMA, all of the funds transferred to the EPEF plus applicable interest.

The assets, liabilities and obligations of the Board immediately prior to the transfers were as follows:

Assets:	
Cash and securities	\$ 18,879,201
Accounts receivable and prepayments (Note 4)	2,009,592
Capital assets (Note 3)	47,849
	<u>\$ 20,936,642</u>
Liabilities:	
Payable to recyclers	\$ 726,952
Accounts payable and accruals	202,400
	<u>929,352</u>
Surplus:	<u>20,007,290</u>
	<u>\$ 20,936,642</u>

Commitments

The following Board commitments were also transferred to the TRMA:

In March 1994, the Board entered into a five-year contract with a private sector company, Alberta Environmental Rubber Products Inc. ("AERPI") to collect and recycle up to 6,500 tonnes of medium truck tires collected from the northern part of Alberta, based on a processing fee of \$250 per tonne of scrap tires processed and sold as recycled rubber crumb or product. In January 1995, because inadequate volumes of medium truck tires were available in the designated area, the geographic restriction was removed to allow AERPI to collect medium truck tires from throughout Alberta.

In January 1995, the Board entered into an agreement, renewable annually by the Board, with AERPI to collect and process up to 3,500 tonnes of scrap passenger and light truck tires collected from the northern part of Alberta, based on a collection and processing fee of \$250 per tonne processed and sold as recycled rubber crumb, or \$215 per tonne processed and sold as recycled rubber shred. The Board has notified AERPI that the contract will not be renewed after February 1997.

In September 1994, the Board announced the Recycling Development Program and committed \$1 million annually for a series of support programs designed to increase the commercial possibilities and competitiveness of Alberta's emerging tire recycling industry.

In December 1994, the Board also announced a Recycling Industry Incentives Program and committed \$10 million over a three year period for a per-tire incentive to Alberta businesses which process and sell recycled rubber products.

In May 1996, the Board entered into an agreement with the Recycling Council of Alberta, to provide funding of \$285,000 for an education program designed to promote the reduction of tire consumption in Alberta. As at October 14, 1996, \$120,000 has been expended on the program.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

Capital Assets

Capital assets were recorded at cost less accumulated amortization. Amortization was recorded on the declining balance basis over the estimated useful lives of the assets at the following annual rates:

Computer equipment and software	30%
Furniture and fixtures	20%

Note 3 Capital Assets

	Before transfer to the TRMA			March 31, 1996
	October 14, 1996			
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment and software	\$ 111,148	\$ 74,838	\$ 36,310	\$ 42,120
Furniture and fixtures	19,610	8,071	11,539	11,275
	<u>\$ 130,758</u>	<u>\$ 82,909</u>	<u>\$ 47,849</u>	<u>\$ 53,395</u>

Note 4 Collection of Advance Disposal Surcharges

The legislation required the Province's tire retailers, including automotive dealerships, to remit to the Board an advance disposal surcharge on each eligible new tire sold.

Included in accounts receivable and prepayments transferred to the TRMA (see Note 1) is an amount of \$20,360 being management's estimate of advanced disposal surcharges collected by retailers but not reported to the Board. The estimate is a product of average monthly remittances and the number of months not reported, discounted for uncollectible amounts. The actual amount ultimately collected could be significantly greater or less than the amount estimated.

Note 5 Compensation

	Six and one half months ended October 14, 1996				Twelve months ended March 31, 1996	
	Number of Full-time Equivalents	Salary	Benefits	Total	Number of Full-time Equivalents	Total
Board compensation ⁽¹⁾						
Chairman of the Board ⁽²⁾	1	\$ 20,692	\$ 561	\$ 21,253	1	\$ 23,899
Board members ⁽²⁾ (average annual equivalent October 14, 1996 \$9,295, March 31, 1996 \$9,756)	9	<u>39,213</u>	<u>1,064</u>	<u>40,277</u>	9	<u>78,046</u>
		<u>59,905</u>	<u>1,625</u>	<u>61,530</u>		<u>101,945</u>
Staff compensation						
Executive Director ⁽³⁾	1	45,500	1,178	46,678	1	87,500
Non-salaried ⁽³⁾ (average annual equivalent October 14, 1996 \$32,064, March 31, 1996 \$29,029)	2.3	37,554	2,393	39,947	2.7	78,378
Contracted services compensation ⁽⁴⁾						
Chief Financial Officer	1	54,112		54,112	1	85,250
Program Director	1	46,215		46,215	.2	13,600
Other full-time staff (average annual equivalent October 14, 1996 \$46,721, March 31, 1996 \$44,299)	2	<u>50,614</u>		<u>50,614</u>	1.8	<u>79,739</u>
Total staff and contracted services compensation ⁽⁵⁾		<u>233,995</u>	<u>3,571</u>	<u>237,566</u>		<u>344,467</u>
		<u>\$293,900</u>	<u>\$5,196</u>	<u>\$299,096</u>		<u>\$446,412</u>

(1) One Board member is a Provincial Government employee and therefore does not receive compensation. The Board expenses figure shown on the statement of revenue, expense and surplus includes the \$61,530 as reported above, together with reimbursements for travel expenses and other Board meeting expenses.

(2) Benefits consist of the Board's share of Canada Pension Plan contribution.

(3) Benefits consist of Board's share of Canada Pension Plan and Employment Insurance Contribution.

(4) These services are provided to the Board under short-term contracts. The amounts shown are the salary and benefit equivalent.

(5) Staff and contracted services compensation of \$237,566 is recorded as part of the Staff and contracted services compensation and the Surcharge collection costs expense categories reported on the statement of revenue, expense and surplus.

Note 6 Comparative Figures

Certain March 31, 1996 figures have been reclassified to conform to the presentation of the October 14, 1996 figures.

Note 7 Budget

The 1997 budget was approved by the Board on December 21, 1995. The six and one half month, prorated budget is presented for comparison with the October 14, 1996 actual figures.

Note 8 Approval of Financial Statements

These financial statements were approved by the Board of Directors of the TRMA, all of whom were members of the TRMB.

THE ALBERTA EDUCATIONAL
COMMUNICATIONS CORPORATION
FINANCIAL STATEMENTS
JULY 1, 1996

Auditor's Report
Balance Sheet
Statement of Revenue, Expenditure and Operating Equity
Statement of Changes in Financial Position
Note to the Financial Statements

AUDITOR'S REPORT

To the Directors of The Alberta Educational Communications Corporation

I have audited the balance sheet of The Alberta Educational Communications Corporation as at July 1, 1996 and the statements of revenue, expenditure and operating equity and changes in financial position for the period then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at July 1, 1996 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
July 19, 1996

THE ALBERTA EDUCATIONAL COMMUNICATIONS CORPORATION
BALANCE SHEET
JULY 1, 1996

	July 1, 1996	March 31, 1996
ASSETS		
Current:		
Cash	\$ 24,989	\$ 72,278
Accounts receivable	-	61,363
Prepaid expenses and deposits	-	31
	<u>\$ 24,989</u>	<u>\$ 133,672</u>
LIABILITIES AND EQUITY		
Current:		
Payables and accruals	\$ 24,989	\$ 114,874
Equity:		
Operating	-	18,798
	<u>\$ 24,989</u>	<u>\$ 133,672</u>

The accompanying note is part
of these financial statements.

ALBERTA EDUCATIONAL COMMUNICATIONS CORPORATION
STATEMENT OF REVENUE, EXPENDITURE AND OPERATING EQUITY
FOR THE PERIOD FROM APRIL 1, 1996 TO THE DEEMED DATE OF
DISSOLUTION, JULY 1, 1996

	Period Ended July 1, 1996	Year Ended March 31, 1996
REVENUE		
Revenue from program sales, video and audio dubbing	\$ 283	\$ 330,366
Interest	260	133,385
Grants from the General Revenue Fund of the Province of Alberta	-	2,312,916
Other	1,436	28,732
	<u>1,979</u>	<u>2,805,399</u>
EXPENDITURE		
Corporate administration	512	1,391,195
Television	-	1,674,158
Educational services	-	2,870,702
	<u>512</u>	<u>5,936,055</u>
Contribution to the General Revenue Fund of the Province of Alberta	-	850,017
Elimination of pension liability	-	(682,000)
	<u>512</u>	<u>6,104,072</u>
Excess (deficiency) of revenue over expenditure for the period	1,467	(3,298,673)
Operating equity at beginning of period	18,798	3,337,673
Transfer to the General Revenue Fund of the Province of Alberta (Note)	(20,265)	-
Transfer to equity in property and equipment	-	(20,202)
Operating equity at end of period	<u>\$ -</u>	<u>\$ 18,798</u>

THE ALBERTA EDUCATIONAL COMMUNICATIONS CORPORATION
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE PERIOD FROM APRIL 1, 1996 TO THE DEEMED DATE
OF DISSOLUTION, JULY 1, 1996

	Period Ended July 1, 1996	Year Ended March 31, 1996
Operating activities:		
Excess (deficiency) of revenue over expenditure	\$ 1,467	\$ (3,298,673)
Add items not affecting cash:		
Contribution to the General Revenue Fund of the Province of Alberta resulting from the transfer of program rights	-	850,017
Amortization of deferred program costs	-	314,199
Elimination of pension liability	-	(682,000)
Net change in non-cash working capital balances relating to operations	<u>(28,491)</u>	<u>(1,078,306)</u>
Cash applied to operations	<u>(27,024)</u>	<u>(3,894,763)</u>
Investing activities:		
Transfer of assets to the Province	(20,265)	-
Additions to deferred program costs	-	(70,743)
Purchase of property and equipment	-	(5,815)
Proceeds from sale of property and equipment	-	347,522
Cash provided by (applied to) investing activities	<u>(20,265)</u>	<u>270,964</u>
Financing activity:		
Transfer of capital leases	-	(292,744)
Principal payments on capital leases	-	(69,165)
Cash applied to financing activities	<u>-</u>	<u>(361,909)</u>
Decrease in cash	(47,289)	(3,985,708)
Cash at beginning of period	72,278	4,057,986
Cash at end of period	<u>\$ 24,989</u>	<u>\$ 72,278</u>

THE ALBERTA EDUCATIONAL COMMUNICATIONS CORPORATION
NOTE TO THE FINANCIAL STATEMENTS
July 1, 1996

Note Authority and Dissolution

The Alberta Educational Communications Corporation (the "Corporation") operated under the authority of the Alberta Educational Communications Corporation Act, Chapter A-18, Revised Statutes of Alberta 1980, as amended ("the AECC Act").

Section 1 of the Municipal Affairs Statutes Amendment and Repeal Act 1996 which was proclaimed in force on July 1, 1996, repealed the AECC Act. On that date, any rights, powers or assets of the Corporation are vested with the Crown. Liabilities of the Corporation were not assumed by the Crown.

On July 1, 1996, assets amounting to \$20,265, consisting of cash of \$16,972 and receivables of \$3,293, were transferred to the General Revenue Fund, Department of Education. Cash amounting to \$24,989 was retained in order to meet the liabilities of the Corporation. From July 1, 1996, the Department of Education is acting as custodian of the retained cash and as agent of the Corporation in discharging the liabilities. For financial statement purposes, the date of dissolution of the Corporation is deemed to be July 1, 1996, the date of repeal of the AECC Act.

ALBERTA SOCIAL HOUSING CORPORATION
FINANCIAL STATEMENTS
MARCH 31, 1997

Auditor's Report
Balance Sheet
Statement of Revenues, Expenses and Change in Deficit
Statement of Deficit
Statement of Changes in Financial Position
Notes to the Financial Statements
Schedule of Social Housing Program Costs
Schedule of Operating Costs for Assets Held for Sale

AUDITOR'S REPORT

To the Board of Directors of the
Alberta Social Housing Corporation

I have audited the balance sheet of the Alberta Social Housing Corporation as at March 31, 1997 and the statements of revenues, expenses and change in deficit, deficit, and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting described in Note 2 to the financial statements.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
June 13, 1997

ALBERTA SOCIAL HOUSING CORPORATION
BALANCE SHEET
AS AT MARCH 31, 1997
(thousands of dollars)

	1997	1996
ASSETS		
Cash (Note 4)	\$ -	\$ 2,379
Accounts receivable	30,852	36,345
Other receivables (Note 5)	7,872	10,481
Social housing program assets:		
Rental properties (Note 6)	944,986	979,217
Mortgages (Note 7)	50,354	57,771
Assets held for sale:		
Mortgages (Note 8)	15,564	24,103
Land (Note 9)	22,021	23,925
Surplus housing (Note 10)	9,029	5,102
	<u>\$ 1,080,678</u>	<u>\$ 1,139,323</u>
LIABILITIES AND DEFICIT		
Bank indebtedness	\$ 204	\$ -
Accrued interest payable	34,962	38,162
Accounts payable	6,651	20,276
Property tax deposits on mortgages	292	524
Short-term notes payable to the General Revenue Fund of the Province of Alberta	15,996	-
Due to the General Revenue Fund of the Province of Alberta (Note 11)	25,306	17,363
Allowance for losses on guarantees and indemnities (Note 12)	5,006	6,434
Unearned mortgage insurance premiums	380	540
Advance from the General Revenue Fund of the Province of Alberta (Note 13)	71,310	86,310
Long-term debt (Note 14)	1,015,016	1,079,063
	1,175,123	1,248,672
Deficit (Note 16)	(94,445)	(109,349)
	<u>\$ 1,080,678</u>	<u>\$ 1,139,323</u>

The accompanying notes and schedules are
part of these financial statements.

ALBERTA SOCIAL HOUSING CORPORATION
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN DEFICIT
FOR THE YEAR ENDED MARCH 31, 1997
(thousands of dollars)

	1997				1996
	Social Housing Program (Schedule 1)	Assets Held for Sale (Schedule 2)	Total Actual	Total Budget (Note 19)	Total Actual
Revenues					
Sales	\$ -	\$ 34,294	\$ 34,294	\$ 15,200	\$ 32,174
Rental properties:					
Recoveries from management bodies (Note 17)	14,301	-	14,301	6,500	14,948
Agency managed revenues	422	-	422	-	9,977
Other	472	389	861	-	1,340
Interest:					
Mortgages	2,357	2,155	4,512	3,100	9,706
Bank and other	205	-	205	500	879
Miscellaneous	576	1,046	1,622	600	4,333
	<u>18,333</u>	<u>37,884</u>	<u>56,217</u>	<u>25,900</u>	<u>73,357</u>
Expenses (Note 3)					
Interest on long-term debt	106,126	1,562	107,688	115,407	123,441
Grants and subsidies	37,602	-	37,602	34,455	47,247
Cost of sales	-	32,238	32,238	13,300	36,195
Amortization	24,305	-	24,305	25,900	24,653
Provision for (recovery of) losses on:					
Land	-	(8,325)	(8,325)	-	(16,531)
Restructured mortgages	-	-	-	-	(5,836)
Other mortgages and surplus housing	(72)	314	242	-	1,057
Guarantees and indemnities	(1,306)	3,361	2,055	2,900	179
Rental properties:					
Contributions to (from) management bodies (Note 17)	(1,015)	-	(1,015)	8,000	6,114
Agency managed expenses (recoveries)	(155)	-	(155)	-	8,278
Other	557	1,084	1,641	-	1,046
Selling costs	-	1,771	1,771	400	981
Miscellaneous	1,318	584	1,902	1,750	1,420
	<u>167,360</u>	<u>32,589</u>	<u>199,949</u>	<u>202,112</u>	<u>228,244</u>
Excess (deficiency) of revenues over expenses before program recoveries	(149,027)	5,295	(143,732)	(176,212)	(154,887)
Program recoveries (Note 18):					
Canada Mortgage and Housing Corporation	66,306	-	66,306	77,068	77,192
Municipal authorities	2,773	-	2,773	1,400	4,628
Program surplus (costs)	(79,948)	5,295	(74,653)	(97,744)	(73,067)
Funding required from the General Revenue Fund (Note 11)	83,921	5,048	88,969	167,844	143,647
Transfer of program assets from the General Revenue Fund	20	-	20	-	1,314
Transfer of program assets from management bodies	971	-	971	-	-
Transfer of program assets to management bodies	(403)	-	(403)	-	(23,340)
Decrease in deficit during the year (Note 16)	<u>\$ 4,561</u>	<u>\$ 10,343</u>	<u>\$ 14,904</u>	<u>\$ 70,100</u>	<u>\$ 48,554</u>

ALBERTA SOCIAL HOUSING PROGRAM
STATEMENT OF DEFICIT
FOR THE YEAR ENDED MARCH 31, 1997
(thousands of dollars)

	1997	1996
Deficit at beginning of year	\$ 109,349	\$ 157,903
Decrease during the year	(14,904)	(48,554)
Deficit at end of year (Note 16)	<u>\$ 94,445</u>	<u>\$ 109,349</u>

ALBERTA SOCIAL HOUSING CORPORATION
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997
(thousands of dollars)

	1997	1996
Operating activities:		
Program costs	\$ (74,653)	\$ (73,067)
Add (deduct) non-cash charges:		
Amortization of rental properties	24,305	24,653
Reduction of loss provisions	(6,150)	(21,293)
Loss (gain) on disposal of assets held for sale	(2,056)	4,021
Mortgage insurance premiums earned	(160)	(545)
	<u>(58,714)</u>	<u>(66,231)</u>
Decrease in non-cash working capital (Note 20)	4,432	76,466
Cash provided by (applied to) operating activities	<u>(54,282)</u>	<u>10,235</u>
Investing activities:		
Proceeds from disposition of assets held for sale	34,294	32,174
Acquisitions:		
Assets held for sale	(10,437)	(68)
Social housing program assets	(325)	-
Mortgage repayments	7,693	7,031
Decrease in other receivables	2,609	1,192
Program assets transferred from management bodies	(971)	-
Program assets transferred to management bodies	403	23,340
Program assets transferred from the General Revenue Fund	(20)	(1,314)
Cash provided by investing activities	<u>33,246</u>	<u>62,355</u>
Financing activities:		
Cash received from the General Revenue Fund (Note 11)	96,912	229,786
Repayment of long-term debt	(73,688)	(245,920)
Repayment of advance from the General Revenue Fund	(15,000)	(22,000)
Increase in long-term debt	9,641	-
Transfers of assets from management bodies	971	-
Transfers of assets to management bodies	(403)	(23,340)
Cash paid to the General Revenue Fund (Note 11)	-	(11,515)
Transfers of assets from the General Revenue Fund	20	1,314
Cash applied to financing activities	<u>18,453</u>	<u>(71,675)</u>
Increase (decrease) in cash	(2,583)	915
Cash at beginning of year	2,379	1,464
Cash (bank indebtedness) at end of year	<u>\$ (204)</u>	<u>\$ 2,379</u>

ALBERTA SOCIAL HOUSING CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997

Note 1 Authority and Purpose

The Alberta Social Housing Corporation (the "Corporation") operates under the authority of the Alberta Housing Act, Chapter A-30.1.

The Corporation's primary purpose is to provide, with the co-operation of management bodies, social housing accommodation to low income families and individuals, seniors and those with special needs.

The Corporation intends to dispose of assets that are surplus to its social housing program needs. These assets, and the revenues and expenses attributable thereto, are reported separately in these financial statements.

The Corporation is a crown agent of the Government of Alberta and as such has a tax exempt status.

Note 2 Significant Accounting Policies and Reporting Practices

(a) General

These financial statements have been prepared in accordance with generally accepted accounting principles except that salaries, accommodation and certain other administration costs incurred in the operation of the Corporation have not been included in expenses. These costs are incurred and recorded by the General Revenue Fund of the Province of Alberta, Departments of Municipal Affairs and Public Works, Supply and Services (Note 3).

(b) Revenue and Expense Recognition

Management bodies have been established by the Minister of Municipal Affairs (the "Minister") to operate most of the Corporation's social housing projects. Contributions to and recoveries from management bodies are recorded in these financial statements in the periods that the management bodies generated the surpluses or incurred the deficits.

Amounts for agency managed rentals of properties are recorded as revenue when rental services are provided. Property sales are recorded as revenue when properties are sold.

Contributions for the expenses of lodge foundations are recorded in the periods in which the foundations provided lodging.

Interest on mortgages is recognized on an accrual basis until a mortgage is classified as non-accrual. Interest on non-accrual loans is recognized as revenue on a cash basis.

(c) Social Housing Program Assets

Rental Properties

Buildings, contents and leasehold improvements are reported at cost less accumulated amortization. Land and work in progress are reported at cost.

These assets are amortized over their estimated useful lives on a straight-line basis at the following annual rates:

Buildings and contents:	
Rural and Native housing	- 4%
Rural mobile homes	- 10%
Other rental properties	- 2%
Leasehold improvements	- The lesser of the lease term and 40 years

Mortgages

Mortgages are reported at cost less any allowance for losses. Cost includes amounts advanced, accrued interest, and other charges, less repayments and subsidies. Mortgages are classified as non-accrual when interest or principal payments are past due 60 days.

(d) Assets Held for Sale

Assets held for sale are reported at the lower of cost and net realizable value.

Mortgages held for sale are classified as non-accrual when interest or principal payments are past due 30 days.

(e) Capital Surplus

Assets transferred to the Corporation are recorded at fair value at acquisition dates. The capital surplus arising from these transfers is deducted from total unfunded expenses to arrive at the deficit.

(f) Measurement Uncertainty

Estimates are used in accruing revenues and expenses in circumstances where the actual revenues and expenses are unknown at the time the financial statements are prepared. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty that is material to these financial statements exists in the accrual of allowances for losses on the guarantees and indemnities issued, and on the valuation of assets held for sale. Management considers that the recognized amounts for the above allowances for losses are unlikely to change by a material amount within one year from the date of the financial statements.

Note 3 Administration Costs

The salaries and benefits, and other costs paid by the General Revenue Fund, Department of Municipal Affairs and the accommodation costs paid by the General Revenue Fund, Department of Public Works, Supply and Services are estimated to be \$8,325,042.

Note 4 Cash

Cash consists of deposits in the Consolidated Cash Investment Trust Fund (the "Fund") of the Province of Alberta. The Fund is being managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of five years. The Corporation earns interest on its daily cash balance at the average rate of earnings of the Fund, which varies depending on prevailing market interest rates.

Note 5 Other Receivables

Other receivables result from the Corporation financing the following:

	1997	1996
	(thousands of dollars)	
Sale of land to:		
Municipalities	\$ 668	\$ 763
Others	2,016	3,363
Construction of student residences for the		
Province of Alberta	2,817	3,048
Amounts required on renegotiation of mortgages	1,295	1,866
Sale of surplus housing	1,076	1,441
	<u>\$ 7,872</u>	<u>\$ 10,481</u>

Note 6 Social Housing Program Assets - Rental Properties

Rental properties, primarily managed by management bodies and agencies, consist of the following:

	Land	Buildings Contents and Leasehold Improvements	Work in Progress	Total
	(thousands of dollars)			
Senior citizens'				
self-contained units	\$ 64,200	\$ 601,454	\$ -	\$ 665,654
Community housing	41,953	328,842	-	370,795
Senior citizens' lodges	11,671	161,989	-	173,660
Rural and native units	3,978	18,941	-	22,919
Special needs housing	1,734	10,672	-	12,406
Rural mobile homes	505	5,796	-	6,301
Total cost	124,041	1,127,694	-	1,251,735
Accumulated amortization	-	306,749	-	306,749
1997 Net book value	<u>\$ 124,041</u>	<u>\$ 820,945</u>	<u>\$ -</u>	<u>\$ 944,986</u>
1996 Net book value	<u>\$ 126,992</u>	<u>\$ 851,220</u>	<u>\$ 1,005</u>	<u>\$ 979,217</u>

Note 7 Social Housing Program Assets - Mortgages

The mortgages are provided under the Rural and Native Housing program with terms of 25 years and interest renewals every 5 years.

	1997	1996
	(thousands of dollars)	
Accrual	\$ 44,650	\$ 50,607
Non-accrual	6,344	7,941
	<u>50,994</u>	<u>58,548</u>
Less allowance for losses	640	777
	<u>\$ 50,354</u>	<u>\$ 57,771</u>

Note 8 Assets Held for Sale - Mortgages

	1997	1996
	(thousands of dollars)	
Non-accrual multi-unit rental property mortgages	\$ 20,674	\$ 30,420
Less allowance for losses	5,110	6,317
	<u>\$ 15,564</u>	<u>\$ 24,103</u>

Note 9 Assets Held for Sale - Land

	1997	1996
	(thousands of dollars)	
Cost	\$ 35,002	\$ 45,231
Less allowance for losses	12,981	21,306
	<u>\$ 22,021</u>	<u>\$ 23,925</u>

Note 10 Assets Held for Sale - Surplus Housing

	1997	1996
	(thousands of dollars)	
Cost	\$ 9,424	\$ 5,447
Less allowance for losses	395	345
	<u>\$ 9,029</u>	<u>\$ 5,102</u>

Note 11 Due to the General Revenue Fund of the Province of Alberta

	1997	1996
	(thousands of dollars)	
Due to (from) the General Revenue Fund of the Province of Alberta at beginning of year	\$ 17,363	\$ (57,261)
Cash received from the General Revenue Fund	96,912	229,786
Cash paid to the General Revenue Fund	-	(11,515)
	<u>114,275</u>	<u>161,010</u>
Less funding required from the General Revenue Fund	(88,969)	(143,647)
Due to the General Revenue Fund of the Province of Alberta at end of year	<u>\$ 25,306</u>	<u>\$ 17,363</u>

Note 12 Guarantees and Indemnities

The Corporation has issued guarantees on the sale of certain of its mortgages to cover losses incurred by the purchasers due to defaults. Any claims for losses will be reduced by the amounts realized from the sale of the related mortgaged properties.

	Guaranteed Amounts at March 31, 1997 (thousands of dollars)
Mortgages, on single family properties, guaranteed to 1998	\$ 21,130
Mortgages, on multi-unit rental properties and land, guaranteed to:	
1999	92
2001	929
2003	18,819
2004	11,095
2007	51,301
2008	1,382
2009	7,095
2011	78,151
2012	411
2017	523
2018	1,492
2022	4,108
	<u>175,398</u>
	<u>\$ 196,528</u>

Under the mobile home loan insurance program, the Corporation has agreed to indemnify losses on mobile home loans issued by financial institutions. The outstanding loans as at March 31, 1997 amount to \$31,242,000.

An allowance for losses has been made on these guarantees and indemnities in the amount of \$5,006,000 (1996 \$6,434,000).

Note 13 Advance from the General Revenue Fund of the Province of Alberta

The advance is interest free and is repayable on demand.

Note 14 Long-Term Debt

	1997	1996
	(thousands of dollars)	
Debentures payable:		
Alberta Heritage Savings Trust Fund, maturing 2002 to 2018, with a weighted average interest rate of 10.26%	\$ 903,645	\$ 975,508
Canada Mortgage and Housing Corporation, maturing 1998 to 2030, with a weighted average interest rate of 9.14%	101,508	103,249
Mortgages:		
Bank of Montreal	9,562	-
Canada Mortgage and Housing Corporation	301	306
	<u>\$ 1,015,016</u>	<u>\$ 1,079,063</u>

The repayment of principal and interest on all borrowings is guaranteed by the Province of Alberta. The debentures are repayable in equal annual or semi-annual instalments, and the mortgages in equal monthly instalments, of blended principal and interest over the terms to maturity.

Approximate aggregate repayments due in each of the next five years are:

1997-98	\$ 36,584,000
1998-99	\$ 40,226,000
1999-2000	\$ 44,087,000
2000-01	\$ 48,563,000
2001-02	\$ 50,640,000

Note 15 Financial Instruments

(a) Credit Risk

The credit risk associated with financial instruments is reflected in the carrying value of the financial instruments.

(b) Interest Risk

The Corporation's exposure to interest rate risk is summarized in the following table:

	Non- Interest Bearing	Floating Interest Rate	1 Year or Less	%	1 to 5 Years	%	More than 5 Years	%	Total Carrying Values
(thousands of dollars)									
Financial assets:									
Accounts receivable ^(d)	\$30,852	\$ -	\$ -		\$ -		\$ -		\$ 30,852
Other receivables ^(c)	3,113	-	676	(8.9%)	921	(6.3%)	3,162	(7.6%)	7,872
Social housing mortgages ^(a)	-	-	-		50,354	(8.9%)	-		50,354
Mortgages held for sale ^(d)	15,564	-	-		-		-		15,564
Financial liabilities:									
Bank indebtedness ^(d)	-	204	-		-		-		204
Accrued interest payable ^(d)	34,962	-	-		-		-		34,962
Accounts payable ^(d)	6,651	-	-		-		-		6,651
Short-term notes ^(d)	-	-	15,996	(3.0%)	-		-		15,996
Due to the General Revenue Fund ^(d)	25,306	-	-		-		-		25,306
Advance from the General Revenue Fund ^(c)	71,310	-	-		-		-		71,310
Long-term debt:									
Alberta Heritage Savings Trust Fund debentures ^(b)	-	-	528,198	(9.2%)	256,271	(8.2%)	119,176	(17.4%)	903,645
Canada Mortgage and Housing Corporation debentures and mortgages ^(b)	-	-	25	(6.3%)	359	(5.8%)	101,425	(9.7%)	101,809
Bank of Montreal ^(d)	-	-	-		9,562	(8.3%)	-		9,562

The effective interest rates are shown in brackets.

- (a) Social housing mortgages are provided under the Rural and Native Housing program. Under this program, mortgagors pay up to 25% of their monthly incomes towards mortgage payments. In the current year, payments from mortgagors amount to only 66% of total required payments. The balance of the required mortgage payments are subsidized by the Corporation and cost-shared with Canada Mortgage and Housing Corporation on a 25% provincial/75% federal basis. Because of the uncertainty of future payments by mortgagors, the fair value of these mortgages cannot be determined.
- (b) Long-term debt has a fair value of \$1,018,065,000 for Alberta Heritage Savings Trust Fund and \$127,570,000 for Canada Mortgage and Housing Corporation debentures. Fair values for debt are based on the province's current borrowing rates, which are available to the Corporation, for debt with similar terms and maturities.
- (c) The fair values of other receivables and the advance from the General Revenue Fund are not determinable due to the uncertain timing of future cash flows.
- (d) The carrying values reported for other financial instruments approximate their fair values.

Note 16 Deficit

When program costs are funded from money voted by the Legislature, the Provincial Treasurer reduces the funding request from the Corporation by the aggregate of the amortization of social housing rental properties in excess of principal debt repayments and the provisions for declines in the value of assets held by the Corporation. Funding is provided for the above when losses are realized, or when principal debt repayment requirements exceed amortization expenses.

The deficit at the end of the year consists of the following:

	1997	1996
	(thousands of dollars)	(thousands of dollars)
Unfunded expenses:		
Social housing program assets - rental properties:		
Amortization	\$ 108,632	\$ 109,550
Capitalization of funded program assets	(660)	(441)
	<u>107,972</u>	<u>109,109</u>
Assets held for sale - land:		
Write downs	40,935	44,419
Allowance for losses (Note 9)	12,981	21,306
	<u>53,916</u>	<u>65,725</u>
Assets held for sale - mortgages:		
Allowance for losses (Note 8)	5,110	6,317
Write downs resulting from mortgage renegotiations and losses on foreclosures	-	1,605
	<u>5,110</u>	<u>7,922</u>
Loss on assumption of mortgage debt	<u>3,361</u>	<u>-</u>
Allowance for losses on guarantees and indemnities (Note 12)	<u>5,006</u>	<u>6,434</u>
Social housing program assets - mortgages:		
Allowance for losses (Note 7)	640	777
Assets held for sale - surplus housing:		
Allowance for losses (Note 10)	<u>395</u>	<u>346</u>
Total unfunded expenses	<u>176,400</u>	<u>190,313</u>
Capital surplus from transfer of assets	<u>(81,955)</u>	<u>(80,964)</u>
Deficit at end of year	<u>\$ 94,445</u>	<u>\$ 109,349</u>

The decrease in the deficit results from changes during the year in unfunded expenses and in the capital surplus.

The change in unfunded expenses results from:

- certain unfunded expenses of prior years which have been funded in the current year, and
- certain expenses of the current year which have not been funded.

The change in capital surplus results from assets transferred from the General Revenue Fund and management bodies.

Note 17 Rental Properties - Contributions to and Recoveries from Management Bodies

Like the Corporation, the management bodies are accountable to the Minister. The Corporation makes contributions to management bodies that have recorded expenses in excess of revenues and recovers amounts from management bodies that have revenues in excess of recorded expenses. Management bodies do not record expenses for interest on long-term debt and amortization of managed properties. These costs are incurred and recorded by the Corporation.

Information on the revenues and recorded expenses of management bodies is disclosed to provide an understanding of the scope of the housing services being provided by the Corporation with the co-operation of the management bodies.

The revenues and recorded expenses for the social housing projects, managed by management bodies, are as follows:

	1997	1996
	(thousands of dollars)	(thousands of dollars)
Revenues	\$85,362	\$92,184
Expenses recorded by management bodies	<u>70,046</u>	<u>83,350</u>
Net results	<u>\$ 15,316</u>	<u>\$ 8,834</u>

The above net results are recorded on the statement of revenues, expenses and change in deficit, and on the schedule of social housing program costs as follows:

	1997	1996
	(thousands of dollars)	(thousands of dollars)
Recoveries from management bodies	\$ 14,301	\$ 14,948
Contributions to (from) management bodies	<u>(1,015)</u>	<u>6,114</u>
Net results	<u>\$ 15,316</u>	<u>\$ 8,834</u>

Note 18 Program Recoveries

(a) Canada Mortgage and Housing Corporation

Cost-sharing agreements provide for a contribution by Canada Mortgage and Housing Corporation towards the capital costs and operating results of approved social housing program projects, and for rent subsidies on properties owned privately or by the Alberta Social Housing Corporation.

The Canada Mortgage and Housing Corporation will contribute approximately \$443,586,000, plus interest, towards the capital costs of the existing social housing program rental properties over the remaining terms of the cost-sharing agreements.

(b) Municipal Authorities

Cost-sharing agreements provide for contributions by municipal authorities of up to 10% of capital costs and operating results of community housing rental properties.

Note 19 Budget

The 1997 revenues, expenses and recoveries budget was forwarded by the Minister to Alberta Treasury on January 15, 1996 and has been included in the statement of revenues, expenses and change in deficit for comparison with the 1997 actual figures. Management's analysis of the budget amounts between the social housing program and assets held for sale, are shown on schedules 1 and 2.

Note 20 Decrease in Non-Cash Working Capital

	1997	1996
	(thousands of dollars)	
Decrease in accounts receivable	\$ 5,493	\$ 85,604
Decrease in accrued interest payable	(3,200)	(8,996)
Increase (decrease) in accounts payable	(13,625)	12,054
Decrease in property tax deposits on mortgages	(232)	(1,213)
Increase (decrease) in short-term notes payable to the General Revenue Fund of the Province of Alberta	15,996	(10,983)
Decrease in non-cash working capital	<u>\$ 4,432</u>	<u>\$ 76,466</u>

Note 21 Commitments

The Corporation leases land under various operating leases for the purpose of providing social housing. Total future payments on these leases amount to \$56,300,000. Lease payments of \$1,300,000 are due in each of the next five years.

Note 22 Comparative Figures

Certain 1996 figures have been reclassified to conform to 1997 presentation.

Note 23 Approval of Financial Statements

These financial statements have been approved by management.

ALBERTA SOCIAL HOUSING CORPORATION
SCHEDULE OF SOCIAL HOUSING PROGRAM COSTS
FOR THE YEAR ENDED MARCH 31, 1997
(thousands of dollars)

	1997							1996		
	Senior Citizens' Self- Contained	Community Housing	Senior Citizens' Lodges	Rural and Native	Special Needs Housing	Rural Mobile Homes	Other	Total Actual	Total Budget	Total Actual
Revenues										
Rental properties:										
Recoveries from management bodies (Note 17)	\$15,676	\$ (1,550)	\$ -	\$ 44	\$ 114	\$ 11	\$ 6	\$14,301	\$ 6,500	\$14,948
Agency managed revenues	750	(46)	-	(73)	20	(229)	-	422	-	9,977
Other	-	-	-	122	-	350	-	472	-	692
Interest:										
Mortgages	-	-	-	2,357	-	-	-	2,357	3,100	2,900
Bank and other	-	-	-	-	-	-	205	205	500	879
Miscellaneous	-	-	-	-	-	-	576	576	600	955
	<u>16,426</u>	<u>(1,596)</u>	<u>-</u>	<u>2,450</u>	<u>134</u>	<u>132</u>	<u>787</u>	<u>18,333</u>	<u>10,700</u>	<u>30,351</u>
Expenses										
Interest on long-term debt	54,340	32,237	11,924	6,647	936	40	2	106,126	115,407	120,882
Grants and subsidies:										
Lodge foundations	-	-	9,380	-	-	-	-	9,380	11,900	22,234
Rent supplement	-	-	-	-	-	-	8,819	8,819	10,870	10,265
Municipal non-profit organizations	-	3,873	-	-	567	-	3,005	7,445	5,940	5,904
Private non-profit organizations	-	-	-	-	3,652	-	-	3,652	3,200	3,848
Other	-	-	-	871	-	-	7,435	8,306	2,545	4,996
Amortization	12,110	7,339	3,246	812	213	580	5	24,305	25,900	24,653
Provision for losses on:										
Social housing mortgages	-	-	-	(72)	-	-	-	(72)	-	283
Guarantees and indemnities	-	-	-	-	-	-	(1,306)	(1,306)	2,900	179
Rental properties:										
Contributions to management bodies (Note 17)	(1,126)	166	-	16	(80)	19	(10)	(1,015)	8,000	6,114
Agency managed expenditures	319	(103)	-	(144)	16	(245)	2	(155)	-	8,278
Other	-	-	-	133	-	252	172	557	-	664
Miscellaneous	-	-	-	171	-	-	1,147	1,318	1,300	963
	<u>65,643</u>	<u>43,512</u>	<u>24,550</u>	<u>8,434</u>	<u>5,304</u>	<u>646</u>	<u>19,271</u>	<u>167,360</u>	<u>187,962</u>	<u>209,263</u>
Deficiency of revenues over expenses before program recoveries	49,217	45,108	24,550	5,984	5,170	514	18,484	149,027	177,262	178,912
Program recoveries (Note 18):										
Canada Mortgage and Housing Corporation	(26,811)	(22,681)	(457)	(5,438)	(3,333)	-	(7,586)	(66,306)	(77,068)	(77,192)
Municipal authorities	-	(2,773)	-	-	-	-	-	(2,773)	(1,400)	(4,628)
Program costs	<u>\$22,406</u>	<u>\$ 19,654</u>	<u>\$24,093</u>	<u>\$ 546</u>	<u>\$ 1,837</u>	<u>\$514</u>	<u>\$10,898</u>	<u>\$79,948</u>	<u>\$ 98,794</u>	<u>\$97,092</u>

ALBERTA SOCIAL HOUSING CORPORATION
SCHEDULE OF OPERATING COSTS FOR ASSETS HELD FOR SALE
FOR THE YEAR ENDED MARCH 31, 1997
(thousands of dollars)

	1997			1996	
	Mortgages	Land	Surplus Housing	Total Actual	Total Actual
				Total Budget (Note 19)	
Revenues					
Sales	\$ 8,252	\$ 6,857	\$ 19,185	\$ 34,294	\$ 15,200
Rental properties	-	50	339	389	-
Interest - mortgages	2,155	-	-	2,155	-
Miscellaneous	-	1,046	-	1,046	-
	<u>10,407</u>	<u>7,953</u>	<u>19,524</u>	<u>37,884</u>	<u>15,200</u>
Expenses					
Interest on long-term debt	-	663	899	1,562	-
Cost of sales	7,418	10,532	14,288	32,238	13,300
Provision for (recovery of) losses on:					
Land	-	(8,325)	-	(8,325)	-
Restructured mortgages	-	-	-	-	-
Surplus housing	-	-	314	314	-
Guarantees	-	-	3,361	3,361	-
Rental properties	-	86	998	1,084	-
Selling costs	14	591	1,166	1,771	400
Miscellaneous	584	-	-	584	450
	<u>8,016</u>	<u>3,547</u>	<u>21,026</u>	<u>32,589</u>	<u>14,150</u>
Excess (deficiency) of revenues over expenses	<u>\$ 2,391</u>	<u>\$ 4,406</u>	<u>\$ (1,502)</u>	<u>\$ 5,295</u>	<u>\$ 1,050</u>
					<u>\$ 24,025</u>

ALBERTA RESEARCH COUNCIL
FINANCIAL STATEMENTS
MARCH 31, 1997

Auditor's Report
Balance Sheet
Statement of Revenue and Expenditure
Statement of Operating Equity
Statement of Changes in Financial Position
Notes to the Financial Statements

AUDITOR'S REPORT

To the Board of Directors of the
Alberta Research Council

I have audited the balance sheet of the Alberta Research Council as at March 31, 1997 and the statements of revenue and expenditure, operating equity and changes in financial position for the year then ended. These financial statements are the responsibility of the Research Council's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Research Council as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
May 1, 1997

ALBERTA RESEARCH COUNCIL
BALANCE SHEET
AS AT MARCH 31, 1997
(thousands of dollars)

	1997	1996
ASSETS		
Current:		
Cash	\$ 13,127	\$ 10,427
Accounts receivable (Note 3)	5,022	3,625
Accrued income receivable	870	1,054
Prepaid expenses and deferred costs	175	102
	<u>19,194</u>	<u>15,208</u>
Capital:		
Assets (Note 4)	11,249	11,215
	<u>\$ 30,443</u>	<u>\$ 26,423</u>
LIABILITIES AND EQUITY		
Current:		
Accounts payable and accrued liabilities	\$ 9,558	\$ 6,634
Unearned contract revenue	548	515
	<u>10,106</u>	<u>7,149</u>
Long-term:		
Pension liability (Note 5)	<u>2,587</u>	<u>2,630</u>
Equity:		
Operating	17,750	15,240
Reserve (Note 8)	-	1,404
	<u>17,750</u>	<u>16,644</u>
	<u>\$ 30,443</u>	<u>\$ 26,423</u>

The accompanying notes are part
of these financial statements.

ALBERTA RESEARCH COUNCIL
STATEMENT OF REVENUE AND EXPENDITURE
FOR THE YEAR ENDED MARCH 31, 1997
(thousands of dollars)

	1997		1996
	Budget	Actual	Actual
	(Note 14)		
Revenue:			
Investment from the Province of Alberta:			
General Revenue Fund	\$ 19,194	\$ 22,692	\$ 20,322
Contract revenue:			
Commercial	14,338	15,445	13,278
Alberta government departments and agencies	1,770	6,348	2,407
Royalties and licensing fees	480	1,492	452
	<u>35,782</u>	<u>45,977</u>	<u>36,459</u>
Expenditure:			
Amortization	2,338	2,662	2,500
Computing supplies and services	1,536	3,043	2,144
Insurance	187	191	152
Legal and patent	665	753	865
Maintenance and rental	287	472	414
Materials and supplies	3,220	4,185	2,844
Other expenses	959	1,268	1,125
Professional, technical and labour services	4,399	4,139	3,834
Salaries, wages and benefits	20,293	25,005	20,265
Severance	-	567	2,056
Telephone	438	525	357
Travel and hospitality	1,432	1,275	1,307
Write down of capital assets (Note 4)	-	786	1,313
	<u>35,754</u>	<u>44,871</u>	<u>39,176</u>
Net revenue (expenditure) for the year	<u>\$ 28</u>	<u>\$ 1,106</u>	<u>\$ (2,717)</u>

ALBERTA RESEARCH COUNCIL
STATEMENT OF OPERATING EQUITY
FOR THE YEAR ENDED MARCH 31, 1997
(thousands of dollars)

	1997		1996
	Budget	Actual	Actual
Operating equity at beginning of year	\$ 15,240	\$ 15,240	\$ 17,245
Net revenue (expenditure) for the year	28	1,106	(2,717)
Transfers from reserve (Note 8)	705	1,404	712
Operating equity at end of year	<u>\$ 15,973</u>	<u>\$ 17,750</u>	<u>\$ 15,240</u>

ALBERTA RESEARCH COUNCIL
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997
(thousands of dollars)

	1997	1996
Operating activities:		
Net revenue (expenditure) for the year	\$ 1,106	\$ (2,717)
Items not affecting cash:		
Amortization	2,662	2,500
Write down of capital assets	786	1,313
Write down of investment in limited partnership	-	100
Net change in non-cash balances (Note 10)	108	143
Net cash arising from operating activities	<u>4,662</u>	<u>1,339</u>
Investing activities:		
Capital asset additions	(2,064)	(2,587)
Capital assets received on transfer (Note 9)	(1,520)	-
Proceeds on disposal of capital assets	102	137
Net cash used by investing activities	<u>(3,482)</u>	<u>(2,450)</u>
Financing activities:		
Liabilities assumed on transfer (Note 9)	1,520	-
Increase (decrease) in cash	2,700	(1,111)
Cash at beginning of year	10,427	11,538
Cash at end of year	<u>\$ 13,127</u>	<u>\$ 10,427</u>

ALBERTA RESEARCH COUNCIL
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997

Note 1 Authority and Purpose

The Alberta Research Council operates under the authority of the Alberta Research Council Act, Chapter A-35.1, Statutes of Alberta 1981. The Alberta Research Council is a Provincial corporation owned by the Government of Alberta and is exempt from income tax.

The Alberta Research Council, with its valued clients and partners, will advance the economy of the Province by promoting technology development and application, performing applied research and development and providing expert advice, technical information, and scientific infrastructure.

Note 2 Significant Accounting Policies and Reporting Practices

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The precise determination of many assets and liabilities is dependent upon future events. Accordingly, the preparation of financial statements for a reporting period necessarily involves the use of estimates and approximations which have been made using careful judgement. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

(a) Amortization

Capital assets are amortized on a straight-line basis over their estimated useful lives using the following annual rates:

Leasehold improvements	25 years
Equipment	3-20 years
Furniture and fixtures	5 years
Computer equipment and software	3 years

(b) Patents

Expenditures for patents owned by the Research Council as a result of research activity are not capitalized due to the uncertain value of benefits which may accrue to the Research Council.

(c) Revenue Recognition

Provincial investment funds are recognized as revenue in the year approved.

Contract revenue is recognized as costs are incurred, up to the contract maximum and in accordance with contracted cost-sharing ratios. The Research Council makes full provision for all known or estimated losses on uncompleted contracts as soon as they can reasonably be estimated.

Royalties and licensing fee revenue is recognized when the amount can be reasonably estimated and there is reasonable assurance of collectibility of proceeds.

(d) Pension

The Alberta Government required the Research Council to record unfunded pension liabilities relating to Research Council employees who are members of the Public Service Pension Plan and the Management Employees Pension Plan. Pension costs comprise the cost of pension benefits earned by employees during the year, interest on the Research Council's share of the unfunded pension liabilities, the amortization of gains or losses that relate to the long-term over the expected average remaining service life of the employee group, the immediate recognition of gains or losses for which there is reasonable assurance regarding measurement and realization, and the change in Research Council's share of the unfunded pension liabilities. The net expense or recovery is included as part of salaries, wages and benefits.

Note 3 Accounts Receivable

	1997	1996
Commercial	\$ 3,949,977	\$ 3,016,435
Alberta government departments and agencies	1,072,314	608,800
	<u>\$ 5,022,291</u>	<u>\$ 3,625,235</u>

Note 4 Capital Assets

	1997		1996
	Cost	Accumulated Amortization	Net Book Value
Leasehold improvements	\$ 6,096,007	\$ 1,582,911	\$ 4,513,096
Equipment	27,495,933	21,837,976	5,657,957
Furniture and fixtures	176,711	120,391	56,320
Computer equipment and software	6,243,978	5,221,908	1,022,070
	<u>\$40,012,629</u>	<u>\$28,763,186</u>	<u>\$11,249,443</u>
			<u>\$11,215,098</u>

During the year, the Research Council increased its threshold for capitalizing capital assets to \$10,000 from \$5,000. During the current year, capitalized assets with an original cost of \$5,358,407 together with related amortization of \$4,846,517 were written off to conform with this policy. This resulted in a write down of capital assets of \$511,890. The remaining income statement effect of \$273,653 related to the write down of capital assets no longer in use.

Note 5 Pension Liability

The Research Council participates with other employers in the Public Service and Management Employees pension plans. These plans provide pensions for the Research Council's employees based on years of service and earnings.

The Research Council had an unfunded pension liability for each plan as at March 31 which was estimated as follows:

	1997	1996
Public Service	\$ 1,069,299	\$ 1,445,000
Management Employees	1,517,663	1,185,000
	<u>\$ 2,586,962</u>	<u>\$ 2,630,000</u>

The total unfunded pension liability for each plan as at March 31, 1997 was determined by actuarial valuations, as at December 31, 1995 for the Public Service plan and as at December 31, 1994 for the Management Employees plan, both extrapolated to March 31, 1997. The 1996 comparative figures for both plans were based upon actuarial valuations as at December 31, 1994 extrapolated to March 31, 1996.

The actuarial valuation was determined using the projected benefit method prorated on service. Assumptions used in the valuation are based on the Pension Board's best estimate of future events. The plans' future experiences will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experiences will emerge as gains or losses in future valuations. Gains or losses which relate to the long-term are amortized over the expected average remaining service life of the employee group; gains and losses for which there is reasonable assurance regarding their measurement and realization are recognized in income immediately.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded liability for each plan which will be funded by employers. The Research Council's portion of those employers' liabilities was based on the Research Council's percentage of the total pensionable payroll of all employers.

Note 6 Contingencies

During 1993, the Research Council was made aware of a potential claim indicating that the Research Council is responsible to an unspecified extent for contamination of petroleum produced from certain oil wells due to drilling fluids in excess of recommended levels. During 1995, the Research Council was made aware of a \$1,369,491 claim naming the Research Council as one of the defendants relating to the petroleum contamination. This claim arises out of a joint venture agreement to develop a drilling fluid which would be a fracturing agent. This matter has been referred to the insurers and the likelihood of loss or the amount of the loss to the Research Council is not determinable at this time. Any settlement which may occur would be accounted for as a charge against the current year's earnings at the time of settlement.

Note 7 Obligation Under Operating Leases

Year ending March 31,

1998	\$ 87,702
1999	54,720
2000	32,120
2001	12,515
2002	-
	<u>\$ 187,057</u>

Note 8 Reserve

During 1993, the Research Council appropriated \$5 million from operating equity for capital requirements in future years. These amounts are returned to operating equity when the capital expenditure is incurred, or as directed by the Research Council.

	1997	1996
Balance at beginning of year	\$ 1,404,234	\$ 2,116,358
Transfers to operating equity	(1,404,234)	(712,124)
Balance at end of year	<u>\$ -</u>	<u>\$ 1,404,234</u>

Note 9 Transfer of Alberta Environmental Centre

On July 10, 1996, an Order in Council was approved by the Province of Alberta resulting in the transfer of the operations, assets, and liabilities of the Alberta Environmental Centre to the Research Council, through the Minister responsible for Science, Research and Information Technology. There was no consideration paid by the Research Council on the transfer. The assets acquired and liabilities assumed received from Alberta Environmental Protection were recorded at the Centre's carrying values at the time of the transfer. The results of operations from July 10, 1996 to March 31, 1997 have been included in these financial statements and the comparative figures, which are not readily available, have not been restated.

Net assets acquired and liabilities assumed:

Capital assets	\$ 1,519,523
Current liabilities assumed	(830,003)
Pension liabilities assumed	(689,520)
Consideration paid	<u>\$ -</u>

Note 10 Net Change in Non-cash Balances

	1997	1996
Accounts receivable	\$ (1,396,967)	\$ 502,803
Accrued income receivable	184,174	(490,231)
Prepaid expenses and deferred costs	(73,411)	70,983
Accounts payable and accrued liabilities, net of transfer (Note 9)	2,094,175	565,325
Unearned contract revenue	33,274	(457,424)
Pension liability, net of transfer (Note 9)	(732,558)	(49,000)
	<u>\$ 108,687</u>	<u>\$ 142,456</u>

Note 11 Unrecorded Related Party Transactions

Occupancy and Office Furniture Expenditure

The premises occupied by the Research Council and some office furniture have been provided by the Province of Alberta at no cost. The value of support provided by the Department of Public Works, Supply and Services, including for 1997 support relating to assets used by the Alberta Environmental Centre operations, is as follows:

	1997	1996
Operating expenditure:		
Building maintenance	\$ 4,927,135	\$ 3,504,336
Grants in lieu of taxes	3,022,707	2,242,140
Lease costs	480,697	702,319
Telecommunications	-	393,000
	<u>\$ 8,430,539</u>	<u>\$ 6,841,795</u>
Capital expenditures:		
Capital construction	\$ 90,142	\$ 1,683,601
Tenant improvement	2,375,783	2,763,323
	<u>\$ 2,465,925</u>	<u>\$ 4,446,924</u>

Note 12 Salaries, Wages and Benefits

	1997				1996	
	Number of Individuals	Salary	Benefits and Allowances	Total	Number of Individuals	Total
Chairman of the Board	1	\$ 13,069	\$ -	\$ 13,069	1	\$ 15,000
Board members (total average \$730; 1996 \$1,140)	9	6,568	-	6,568	9	10,257
	10	19,637	-	19,637	10	25,257
Chief Executive Officer ⁽²⁾	1	102,334	54,418	156,752	1	118,465
Executive/Vice-Presidents						
Chief Financial Officer	1	94,300	22,122	116,422	1	100,413
Vice-President, R and D Operations ⁽³⁾	1	109,100	25,751	134,851	1	60,572
Vice-President, Development and Planning ⁽⁴⁾	-	-	-	-	1	130,573
Vice-President, Marketing ⁽⁵⁾	1	109,100	28,077	137,177	1	106,406
Vice-President, Public Sector Investments ⁽⁶⁾	1	25,127	10,596	35,723	-	-
	4	337,627	86,546	424,173	4	397,964
Other managers (total average \$80,883 ⁽¹⁾ ; 1996 \$92,817)	35	2,319,934	510,966	2,830,900	17	1,577,893
Other full-time staff						
Professional staff (total average \$60,293 ⁽¹⁾ ; 1996 \$66,465)	175	8,972,666	1,578,545	10,551,211	139	9,238,654
Clerical and technical staff (total average \$39,835 ⁽¹⁾ ; 1996 \$44,889)	269	9,177,060	1,538,444	10,715,504	181	8,124,933
	444	18,149,726	3,116,989	21,266,715	320	17,363,587
Part-time and casual wage staff		998,484	109,086	1,107,570		794,046
Total	494	\$21,927,742	\$3,878,005	\$25,805,747	352	\$20,277,212

(1) The Alberta Environmental Centre (AEC) was transferred to the Alberta Research Council effective July 10, 1996. The 1997 figures include salaries, wages and benefits to AEC for the nine month period of July 10, 1996 to March 31, 1997.

(2) The Chief Executive Officer is also a Board Member. No compensation is paid to the individual in his capacity as a Board Member.

(3) Position vacant from October 1995 to March 31, 1996.

(4) Position ended March 31, 1996.

(5) Position started June 1995.

(6) Position started January 1997.

Reconciliation of salaries, wages and benefits:

	1997	1996
Salaries, wages and benefits as reported above	\$ 25,805,747	\$ 20,277,212
Add:		
Monies paid on behalf of Alberta Science and Research Authority	-	72,223
Salaries and benefits recovered from from Alberta Science and Research Authority	29,702	-
Less:		
Capitalization of Biotech facilities	(42,981)	(35,112)
Salaries and benefits included in deferred costs	(55,116)	-
Change in pension obligation	(732,558)	(49,000)
Per financial statement	25,004,794	20,265,323
Salary costs related to severance	567,311	2,055,838
	<u>\$ 25,572,105</u>	<u>\$ 22,321,161</u>

Note 13 Financial Instruments

The fair values of cash, accounts receivable, accrued income receivable, and accounts payable and accrued liabilities approximate their carrying value.

In addition, at March 31, 1997, the Research Council owns options, which expire May 5, 2001, to acquire 343,200 common shares of a public company, exercisable at \$1 per share. The options, which were originally acquired as part of the consideration received for the granting of a licence, are recorded at nominal values. Market value at March 31, 1997 was \$9 per share.

The Research Council is subject to market risk with these stock options. As a result, the value of these financial instruments will fluctuate as a result of changes in market prices.

Note 14 Budget

The 1997 budget was approved by the Board of Directors on March 14, 1996. The budget amounts did not anticipate the effect of the transfer of the Alberta Environmental Centre which occurred on July 10, 1996.

Note 15 Approval of Financial Statements

These financial statements were reviewed by management and the audit committee, and recommended to the Board for approval.

ALBERTA INSURANCE COUNCIL
FINANCIAL STATEMENTS
DECEMBER 31, 1996

Auditor's Report
Balance Sheet
Statement of Revenue, Expenses and Operating Surplus
Statement of Changes in Financial Position
Notes to the Financial Statements
Schedule of Salaries and Benefits

AUDITOR'S REPORT

To the Members of the Alberta Insurance Council

I have audited the balance sheet of the Alberta Insurance Council as at December 31, 1996 and the statements of revenue, expenses and operating surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Council's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Council as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
March 13, 1997

ALBERTA INSURANCE COUNCIL
BALANCE SHEET
AS AT DECEMBER 31, 1996

	1996	1995
ASSETS		
Current:		
Cash (Note 3)	\$ 1,252,640	\$ 1,373,193
Accounts receivable	695	709
Prepaid expenses	6,795	10,947
	<u>1,260,130</u>	<u>1,384,849</u>
Capital assets (Note 4)	187,487	57,337
	<u>\$ 1,447,617</u>	<u>\$ 1,442,186</u>
LIABILITIES AND OPERATING SURPLUS		
Accounts payable	\$ 20,379	\$ 15,167
Due to the Province of Alberta (Note 5)	10,330	14,855
	<u>30,709</u>	<u>30,022</u>
Operating surplus	1,416,908	1,412,164
	<u>\$ 1,447,617</u>	<u>\$ 1,442,186</u>

The accompanying notes and schedule
are part of these financial statements.

ALBERTA INSURANCE COUNCIL
STATEMENT OF REVENUE, EXPENSES AND OPERATING SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1996

	1996		1995
	Budget (Note 8)	Actual	Actual
Revenue:			
Province of Alberta	\$ 1,070,500	\$ 1,097,430	\$ 1,055,032
Interest	65,000	71,962	99,942
Miscellaneous	5,000	7,639	7,826
	<u>1,140,500</u>	<u>1,177,031</u>	<u>1,162,800</u>
Expenses:			
Salaries and benefits (Schedule 1)	620,000	641,837	491,618
Council meetings	150,000	108,088	109,524
Occupancy	90,000	91,967	89,638
Professional fees	73,000	65,426	22,705
Freight and postage	40,000	45,272	42,464
Communications	40,000	40,106	32,690
Amortization of capital assets	38,000	38,745	19,133
Office	15,000	30,388	18,144
Travel	25,000	27,697	21,695
Printing and stationery	45,000	24,870	29,726
Legal fees	15,000	20,250	1,382
Insurance	12,500	10,475	10,903
Software development	20,000	2,990	67,289
Equipment rental	-	1,548	6,209
Move	-	-	19,037
Other	-	22,628	19,813
	<u>1,183,500</u>	<u>1,172,287</u>	<u>1,001,970</u>
Excess (deficiency) of revenue over expenses for the year	<u>\$ (43,000)</u>	4,744	160,830
Operating surplus at beginning of year		1,412,164	1,251,334
Operating surplus at end of year		<u>\$ 1,416,908</u>	<u>\$ 1,412,164</u>

ALBERTA INSURANCE COUNCIL
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1996

	1996	1995
Operating activities:		
Excess of revenue over expenses for the year	\$ 4,744	\$ 160,830
Amortization and write off of capital assets	38,745	19,133
	<u>43,489</u>	<u>179,963</u>
Add (deduct) changes in non-cash working capital:		
Decrease in prepaid expenses	4,152	5,138
Decrease in accounts receivable	14	608
Increase (decrease) in accounts payable	5,212	(22,118)
Increase (decrease) in due to the Province of Alberta	(4,525)	3,668
	<u>48,342</u>	<u>167,259</u>
Net cash from operations		
Investing activity:		
Purchase of capital assets	(168,895)	(37,584)
Increase (decrease) in cash	(120,553)	129,675
Cash at beginning of year	1,373,193	1,243,518
Cash at end of year	<u>\$ 1,252,640</u>	<u>\$ 1,373,193</u>

ALBERTA INSURANCE COUNCIL
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1996

Note 1 Authority

The Alberta Insurance Council operates under the authority of the Insurance Act, Chapter I-5, Revised Statutes of Alberta 1980, as amended.

The Alberta Insurance Council provides administration services to the Life Insurance, General Insurance and Insurance Adjusters Councils. These Councils are responsible for regulating their segments of the insurance industry.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Capital Assets and Amortization

Capital assets are recorded at cost. Amortization is calculated on a straight-line basis at the following annual rates:

Furniture and office equipment	- 10%
Computer equipment	- 33 1/3%
Computer software	- 33 1/3%
Telephone equipment	- 20%

(b) Revenue, Province of Alberta

Pursuant to the delegation of certain licensing and administrative functions to it by the Superintendent of Insurance, the Council collects prescribed licensing and examination fees which it remits to the Provincial Treasurer. In return, the Council receives from the General Revenue Fund of the Province of Alberta an amount equal to 85% of the fees collected.

Note 3 Cash

Cash includes \$1,182,718 (1995 \$1,257,673) invested in the Consolidated Cash Investment Trust Fund. The Consolidated Cash Investment Trust Fund is being managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of five years.

Note 4 Capital Assets

	1996		1995
	Cost	Accumulated Amortization	Net Book Value
Furniture and office equipment	\$ 102,318	\$ 52,848	\$ 49,470
Computer equipment	111,697	46,850	64,847
Computer software	70,980	1,972	69,008
Telephone equipment	10,262	6,100	4,162
	<u>\$ 295,257</u>	<u>\$ 107,770</u>	<u>\$ 187,487</u>
			<u>\$ 57,337</u>

Note 5 Due to the Province of Alberta

The net balance at December 31 consists of:

	1996	1995
Licensing and examination fees due to the Province of Alberta	\$ 64,615	\$ 99,030
Due from the Province of Alberta for services rendered	(54,285)	(84,175)
	<u>\$ 10,330</u>	<u>\$ 14,855</u>

Note 6 Lease Commitments

The Council is committed to operating lease payments for business premises and equipment as follows:

1997	\$ 89,955
1998	\$ 89,955
1999	\$ 89,955
2000	\$ 59,058
2001	\$ -

Note 8 Budget

The 1996 budget was approved by the Alberta Insurance Council on October 20, 1995, and is presented for comparison with the 1996 actual figures.

Note 9 Approval of Financial Statements

These financial statements were approved by management.

ALBERTA INSURANCE COUNCIL
SCHEDULE OF SALARIES AND BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 1996
PER DIEM PAYMENTS TO COUNCIL MEMBERS

	1996		1995	
	#	Total	#	Total
Councils(a)				
Chairs	4	\$ 22,500	4	\$ 19,350
Council Members	19	55,100	19	57,150
Total	23	\$ 77,600	23	\$ 76,500

- (a) This includes the Alberta Insurance Council, the Life Insurance Council, the General Insurance Council and the Insurance Adjusters Council.

SALARIES AND BENEFITS

	1996				1995	
	#	Salary(b)	Benefits(c)	Total	#	Total
General Manager	1	\$ 73,083	\$ 15,579	\$ 88,662	1	\$ 66,729
Manager of Compliance	1	48,963	14,569	63,532	1	57,080
Full-time staff ^(d)	13	422,110	58,218	480,328	11	359,919
Part-time staff	3	8,272	1,043	9,315	2	7,890
Total	18	\$ 552,428	\$ 89,409	\$ 641,837	15	\$ 491,618

- (b) Salary includes regular base pay, bonuses, overtime and accrued vacation pay. Accrued vacation pay for 1996 \$1,066 (1995 \$4,839).
- (c) Employer's share of all employee benefits and contributions or payments made on behalf of employees including group RRSP, health care, dental coverage, group life insurance, and long and short-term disability plans.
- (d) Full-time staff consists of all individuals working 29 hours or more per week. Average annual salary for 1996 \$37,509 (1995 \$32,620).

ALBERTA MUNICIPAL FINANCING CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 1996

Auditor's Report
Balance Sheet
Statement of Revenue, Expenditure and Retained Earnings
Statement of Changes in Financial Position
Notes to the Financial Statements
Schedule of Sinking Fund Assets
Schedule of Long-term Debt

AUDITOR'S REPORT

To the Shareholders of the
Alberta Municipal Financing Corporation

I have audited the balance sheet of the Alberta Municipal Financing Corporation as at December 31, 1996 and the statements of revenue, expenditure and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
February 3, 1997

ALBERTA MUNICIPAL FINANCING CORPORATION
BALANCE SHEET
AS AT DECEMBER 31, 1996
(thousands of dollars)

	<u>1996</u>	<u>1995</u> (Restated)
ASSETS		
Cash	\$ 75,664	\$ 59,856
Accrued interest receivable	190,436	204,476
Loans to local authorities (Note 4)	4,371,142	4,647,508
Sinking fund assets (Note 5 and Schedule 1)	345,764	312,091
	<u>\$ 4,983,006</u>	<u>\$ 5,223,931</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accrued interest payable	\$ 96,087	\$ 100,734
Long-term debt (Note 6 and Schedule 2)	4,574,644	4,780,008
	<u>4,670,731</u>	<u>4,880,742</u>
Shareholders' equity:		
Share capital (Note 7):		
Authorized: 7,500 common shares, par value \$10 per share		
Issued and fully paid: 6,378 shares (1995 6,430 shares)	64	64
Retained earnings	312,211	343,125
	<u>312,275</u>	<u>343,189</u>
	<u>\$ 4,983,006</u>	<u>\$ 5,223,931</u>

R.A. Splane
President & Chairman of the Board

R.L. Ardiel
Vice-President

The accompanying notes are
part of these financial statements.

ALBERTA MUNICIPAL FINANCING CORPORATION
STATEMENT OF REVENUE, EXPENDITURE AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1996
(thousands of dollars)

	1996		1995
	Budget	Actual	Actual (Restated)
Revenue:			
Interest on loans	\$ 509,200	\$ 504,838	\$ 539,039
Amortization of loan discounts	7,500	50,835	53,836
Investment income on sinking fund assets	33,000	29,173	30,170
Interest on deposits and short-term investments	2,000	2,348	2,560
Fees on loan prepayments	1,000	1,878	425
	<u>552,700</u>	<u>589,072</u>	<u>626,030</u>
Expenditure:			
Interest on long-term debt	544,800	542,986	558,495
Amortization of long-term debt discounts	900	1,321	1,431
Administration and office expenses (Note 8)	324	325	279
Amortization of promissory note discounts	1,000	308	2,999
Debt issue and service expenses	45	36	28
Directors' and officers' fees and expenses (Note 8)	15	10	13
	<u>547,084</u>	<u>544,986</u>	<u>563,245</u>
Excess of revenue over expenditure for the year	<u>\$ 5,616</u>	<u>44,086</u>	<u>62,785</u>
Retained earnings, beginning of year as restated (Note 3)		343,125	280,340
Interest rate rebate to shareholders		(75,000)	-
Retained earnings, end of year		<u>\$ 312,211</u>	<u>\$ 343,125</u>

ALBERTA MUNICIPAL FINANCING CORPORATION
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1996
(thousands of dollars)

	1996	1995
		(Restated)
Operating transactions:		
Excess of revenue over expenditure for the year	\$ 44,086	\$ 62,785
Add (deduct) non-cash items:		
Amortization of premiums and discounts on sinking fund assets	(28,288)	(27,047)
Decrease in accrued interest, net	9,393	7,749
Amortization of loan discounts	(50,835)	(53,836)
Amortization of promissory note discounts	308	2,999
Amortization of long-term debt discounts	1,321	1,431
	<u>(24,015)</u>	<u>(5,919)</u>
Interest rebate to shareholders	(75,000)	-
Cash applied to operating transactions	<u>(99,015)</u>	<u>(5,919)</u>
Investing transactions:		
Loan repayments	447,310	413,596
New loans	(120,109)	(112,140)
Cash provided by investing transactions	<u>327,201</u>	<u>301,456</u>
Financing transactions:		
Debt issue:		
Short-term notes payable	59,692	207,000
Debt retirement:		
Redemption of long-term debt	(206,685)	(237,694)
Redemption of short-term notes, at par	(60,000)	(210,000)
Increase in sinking fund assets, net	(5,385)	(7,623)
Cash applied to financing transactions	<u>(212,378)</u>	<u>(248,317)</u>
Increase in cash	15,808	47,220
Cash at beginning of year	59,856	12,636
Cash at end of year	<u>\$ 75,664</u>	<u>\$ 59,856</u>

ALBERTA MUNICIPAL FINANCING CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1996

Note 1 Authority

The Alberta Municipal Financing Corporation operates under the authority of the Alberta Municipal Financing Corporation Act, Chapter A-33, Revised Statutes of Alberta 1980, as amended.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Sinking Fund Investments

Sinking fund investments are recorded at cost. The cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Realized gains and losses on disposals of sinking fund investments are included in the determination of investment income. The cost of disposals is determined on the average cost basis.

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

Investment income on sinking fund investments accrues to the sinking fund.

(b) Long-term Debt

Long-term debt discounts, including underwriting commission, arising on the issue of long-term debt are deferred and amortized over the term of the long-term debt.

Long-term debt is recorded net of unamortized discounts.

Public long-term debt issue expenses are charged against income as they are incurred.

(c) Promissory Note Discounts

Promissory note discounts are amortized over the term of the notes.

(d) Discounts on Loans to Local Authorities

Discounts are recorded for reductions of interest rates given on loans to local authorities with interest rates above a certain level and are amortized to income over the term of these loans. Annual amortization is the change in the present value of the remaining interest rate reduction.

Note 3 Prior Period Adjustment

In 1987 and 1988, the Corporation reduced annual interest rates on outstanding loans to 14% and 12.5% respectively. Prior to 1996, the Corporation did not reduce the carrying amount of these loans to reflect the change in interest rates.

In 1996, the Corporation reduced the recorded value of the loans to local authorities by an amount equal to the discounted value of future revenue concessions related to the interest rate reductions. The amount of the reduction will be amortized to income over the remaining term of the loans.

As a result of these adjustments which have been recorded retroactively in these financial statements, loans to local authorities have been reduced by \$170,309,000 at December 31, 1996 (1995 \$213,629,000) and amortization of loan discounts has been increased by \$43,320,000 for 1996 (1995 \$45,325,000).

In addition, opening retained earnings have been adjusted as follows:

	1996	1995
	(thousands of dollars)	
Retained earnings, beginning of year, as previously reported	\$ 556,754	\$ 539,294
Prior period adjustment	213,629	258,954
Retained earnings, beginning of year, as restated	<u>\$ 343,125</u>	<u>\$ 280,340</u>

Note 4 Loans to Local Authorities

	1996	1995
	(thousands of dollars)	
Loans to local authorities	\$ 4,576,352	\$ 4,903,553
Less: unamortized discounts	205,210	256,045
	<u>\$ 4,371,142</u>	<u>\$ 4,647,508</u>

Loans to local authorities mature as follows:

	1996						1995
	Up to 1 Year	1 to 2 Years	2 to 3 Years	3 to 5 Years	5 to 10 Years	10 Plus Years	Total
	(millions of dollars)						Total
Municipal	\$357.8	\$364.9	\$296.6	\$575.5	\$1,025.6	\$594.0	\$3,214.4
Hospital	1.8	1.5	1.7	4.0	3.4	0.5	12.9
School	120.0	118.0	116.0	221.2	433.0	340.9	1,349.1
	<u>\$479.6</u>	<u>\$484.4</u>	<u>\$414.3</u>	<u>\$800.7</u>	<u>\$1,462.0</u>	<u>\$935.4</u>	<u>\$4,576.4</u>
							<u>\$4,903.6</u>
Yield	10.5%	10.5%	10.5%	10.5%	10.4%	9.2%	10.3%
							10.3%

Note 5 Sinking Fund Assets

Sinking fund assets relate to the \$450,000,000 December 15, 2002 public issue of long-term debt. Sinking fund assets have been reclassified and are no longer netted against long-term debt. They are now shown separately as an asset on the balance sheet.

The following table summarizes maturities of sinking fund assets and yields.

	1996				1995
	Up to 1 Year	1 to 2 Years	2 to 3 Years	3 to 5 Years	Total
	(thousands of dollars)				Total
\$ 60	\$ 7,398	\$ 7,676	\$ 330,630	\$ 345,764	\$ 312,091
Yield				8.9%	10.2%

Note 6 Long-term Debt

- (a) The long-term debt of the Corporation is fully guaranteed by the Province of Alberta.
- (b) Long-term debt amounting to \$3,656,863,000 held by the Canada Pension Plan Investment Fund is redeemable at the option of the Minister of Finance of Canada by giving six months notice in writing and observing the other redemption provisions of the long-term debt agreement.
- (c) Assuming that the related debt is held to maturity (schedule 2), sinking fund and long-term debt redemption requirements during each of the next five years are as follows:

	Sinking Fund	Long-term Debt Redemption	Total
	(thousands of dollars)		
1997	\$ 4,500	\$ 175,457	\$ 179,957
1998	4,500	226,645	231,145
1999	4,500	294,206	298,706
2000	4,500	442,367	446,867
2001	4,500	331,739	336,239
	<u>\$ 22,500</u>	<u>\$ 1,470,414</u>	<u>\$ 1,492,914</u>

The following table summarizes maturities of long-term debt and yields.

	1996						1995
	Up to 1 Year	1 to 2 Years	2 to 3 Years	3 to 5 Years	5 to 10 Years	10 Plus Years	Total
	(millions of dollars)						Total
\$ 175.5	\$ 226.6	\$ 294.2	\$ 774.1	\$ 2,183.3	\$ 925.2	\$ 4,578.9	\$ 4,785.5
Yield						11.0%	11.2%

Note 7 Share Capital

Particulars of share capital are summarized hereunder:

Class	Restricted to	Number of Shares		Total Dollar Amount
		Authorized	Issued and Fully Paid	
A	Provincial Treasurer	4,500	4,500	\$ 45,000
B	Municipalities and hospitals	1,000	850	8,500
C	Cities	750	580	5,800
D	Towns and villages	750	313	3,130
E	Schools, universities and colleges	500	135	1,350
		<u>7,500</u>	<u>6,378</u>	<u>\$ 63,780</u>

During the year, 10 Class B, 2 Class C, 1 Class D and 2 Class E shares were issued and 63 Class B, 3 Class D and 1 Class E shares were cancelled at \$10.00 each.

Note 8 Directors' Fees and Related Party Transactions

Directors' fees paid by the Corporation are as follows:

	1996		1995	
	Number of Individuals	Total	Number of Individuals	Total
Chairman of the Board	1	\$ 1,300	1	\$ 1,300
Board members	8	\$ 2,400	7	\$ 3,000

Two of the Board members are employees of the Province of Alberta and do not receive compensation from the Corporation.

The Corporation has no employees. Administration and office expenses of \$262,331 (1995 \$233,117) were paid to the controlling shareholder, Province of Alberta at prices which approximate market.

Note 9 Fair Value of Financial Instruments

The amounts set out in the table below represent the fair value of the Corporation's financial instruments using the valuation methods and assumptions described below.

The estimated fair value approximates amounts at which these financial instruments could currently be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. Many of the Corporation's financial instruments lack an available trading market, therefore fair values are based on estimates using present value techniques which are significantly affected by assumptions concerning the timing of future cash flows and discount rates. Therefore fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

	As at December 31, 1996		As at December 31, 1995	
	Fair Value	Book Value	Fair Value	Book Value
	(thousands of dollars)			
Assets				
Cash	\$ 75,664	\$ 75,664	\$ 59,856	\$ 59,856
Sinking Fund Securities	376,796	345,764	329,972	312,091
Loans	5,423,500	4,371,142	5,561,700	4,647,508
Liabilities				
Debt	5,700,868	4,574,644	5,759,331	4,780,008

Note 10 Budget

The 1996 Revenue and Expenditure budget was approved by the Board of Directors on December 15, 1995.

Note 11 Comparative Figures

The 1995 figures have been reclassified where necessary to conform to 1996 presentation.

ALBERTA MUNICIPAL FINANCING CORPORATION
SCHEDULE OF SINKING FUND ASSETS
AS AT DECEMBER 31, 1996
(thousands of dollars)

	Par Value	Book Value	Market Value
Investments			
Bonds and debentures:			
Government of Canada, direct and guaranteed	\$ 5,556	\$ 5,547	\$ 6,850
Provincial, guaranteed:			
Alberta Municipal Financing Corporation	1,933	2,223	2,384
Other	50,000	33,931	37,125
Bond coupons and residuals:			
Government of Canada, direct		99,241	106,901
Provincial, direct:			
Alberta Municipal Financing Corporation		190,778	208,088
Other		13,984	15,388
Total		<u>345,704</u>	<u>376,736</u>
Other Assets			
Cash		5	5
Accrued interest receivable		55	55
Total		<u>60</u>	<u>60</u>
Total 1996		<u>\$ 345,764</u>	<u>\$ 376,796</u>
Total 1995		<u>\$ 312,091</u>	<u>\$ 329,972</u>

ALBERTA MUNICIPAL FINANCING CORPORATION
SCHEDULE OF LONG-TERM DEBT
AS AT DECEMBER 31, 1996
(thousands of dollars)

<u>Date of Issue</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Face Value</u>	<u>Principal Outstanding</u>
Province of Alberta				
Nov 01, 1979	Nov 01, 1999	11.70	\$ 70,000	\$ 70,000
Mar 03, 1980	Mar 03, 2000	13.45	35,000	35,000
Aug 15, 1980	Aug 15, 2000	13.20	35,000	35,000
Total				<u>140,000</u>
Canada Pension Plan Investment Fund (Note 6(b))				
Oct 14, 1977	Sep 01, 1997	9.06	163,457	163,457
Oct 16, 1978	Sep 01, 1998	9.31	176,645	176,645
Nov 15, 1979	Oct 01, 1999	10.04	219,206	219,206
Nov 14, 1980	Oct 01, 2000	12.35	222,367	222,367
Sep 15, 1981	Aug 01, 2001	14.18	216,739	216,739
Jun 01, 1982	Jun 01, 2002	15.75	274,735	274,735
Apr 05, 1983	Apr 05, 2003	13.82	209,284	209,284
Dec 01, 1983	Dec 01, 2003	11.50	231,739	231,739
Dec 03, 1984	Dec 03, 2004	13.25	338,491	338,491
Nov 01, 1985	Nov 01, 2005	11.66	283,604	283,604
Nov 03, 1986	Nov 03, 2006	9.85	395,396	395,396
Nov 02, 1987	Nov 02, 2007	9.66	335,383	335,383
Oct 03, 1988	Oct 03, 2008	10.04	259,294	259,294
Oct 02, 1989	Oct 02, 2009	9.99	291,414	291,414
Nov 01, 1989	Nov 01, 2009	9.62	32,457	32,457
Dec 01, 1989	Dec 01, 2009	9.26	6,652	6,652
Total				<u>3,656,863</u>
Public				
Dec 17, 1979	Dec 15, 2000	11.85	70,000	70,000
Jul 02, 1980	Jul 03, 2000	11.75	30,000	30,000
Dec 01, 1980	Dec 01, 2000	13.65	50,000	50,000
Mar 02, 1981	Mar 02, 2001	14.10	30,000	30,000
Jun 15, 1981	Jun 15, 2001	16.25	85,000	85,000
Jan 18, 1983	* Dec 15, 2002	12.25	450,000	450,000
Nov 02, 1993	Nov 02, 1998	6.00	2,000	2,000
Nov 04, 1993	Nov 04, 1998	5.50	8,000	8,000
Nov 04, 1993	Nov 04, 1998	5.50	5,000	5,000
Nov 12, 1993	Nov 12, 1997	6.00	2,000	2,000
Nov 16, 1993	Nov 04, 1998	5.50	5,000	5,000
Nov 16, 1993	Nov 04, 1998	5.50	5,000	5,000
Nov 18, 1993	Nov 18, 1998	6.00	10,000	10,000
Nov 18, 1993	Nov 18, 1998	6.00	10,000	10,000
Nov 18, 1993	Nov 18, 1998	6.00	5,000	5,000
Mar 23, 1994	Mar 23, 1999	6.25	1,000	1,000
Mar 21, 1994	Mar 21, 1997	5.00	5,000	5,000
Mar 23, 1994	Mar 23, 1999	6.25	4,000	4,000
Mar 21, 1994	Mar 21, 1997	6.00	5,000	5,000
Total				<u>782,000</u>
				<u>4,578,863</u>
Less: Unamortized long-term debt discount				<u>4,219</u>
Total long-term debt				<u>\$ 4,574,644</u>

* AMFC has the right to redeem the debentures of this issue in whole but not in part on December 15, 2000 or any interest payment date thereafter prior to maturity.

ALBERTA PENSIONS ADMINISTRATION CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 1996

Auditor's Report
Balance Sheet
Statement of Income
Statement of Changes in Financial Position
Notes to the Financial Statements

AUDITOR'S REPORT

To the Shareholder of Alberta Pensions Administration Corporation

I have audited the balance sheet of the Alberta Pensions Administration Corporation as at December 31, 1996 and the statements of income and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
February 27, 1997

ALBERTA PENSIONS ADMINISTRATION CORPORATION
BALANCE SHEET
AS AT DECEMBER 31, 1996

	1996	1995
ASSETS		
Current:		
Cash (Note 4)	\$ 34,170	\$ 862,122
Accounts receivable	6,196	-
Due from pension plans - operating costs	1,318,805	258,952
	<u>1,359,171</u>	<u>1,121,074</u>
Capital assets (Note 5)	1,569,474	881,188
	<u>\$ 2,928,645</u>	<u>\$ 2,002,262</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current:		
Accounts payable and accrued liabilities	\$ 721,344	\$ 866,739
Accrued salary and wages	637,826	254,334
Due to pension plans - capital advances (Note 6)	290,516	216,704
	<u>1,649,686</u>	<u>1,337,777</u>
Due to pension plans - capital advances (Note 6)	1,278,958	664,484
	<u>2,928,644</u>	<u>2,002,261</u>
Shareholders equity:		
Share capital (Note 7)	1	1
	<u>\$ 2,928,645</u>	<u>\$ 2,002,262</u>

On behalf of the Board:

D. W. Hughes
Director

J. H. McMahon
Director

The accompanying notes are part
of these financial statements.

ALBERTA PENSIONS ADMINISTRATION CORPORATION
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1996
(with comparative figures for the two months
ended December 31, 1995)

	Actual 1996	Budget 1996 (Note 14)	Actual 1995
Revenue			
Service revenue (Note 8)	\$ 8,082,559	\$ 8,529,000	\$ 1,853,486
Operating costs			
Staff and related costs (Note 9)	4,906,787	4,924,000	1,045,853
Contract services (Note 10)	284,693	287,000	41,858
Materials and supplies	441,438	510,000	68,936
Data processing	723,439	725,000	99,900
Rent	428,946	430,000	72,893
Amortization of capital assets	359,344	433,000	35,151
Corporate operating costs	7,144,647	7,309,000	1,364,591
Plan specific costs (Note 11)	937,912	1,220,000	488,895
Total operating costs	<u>8,082,559</u>	<u>8,529,000</u>	<u>1,853,486</u>
Net income	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

ALBERTA PENSIONS ADMINISTRATION CORPORATION
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1996
(with comparative figures for the two months
ended December 31, 1995)

	1996	1995
Operating activities		
Net income	\$ -	\$ -
Item not requiring cash		
Amortization	359,344	35,151
	<u>359,344</u>	<u>35,151</u>
Changes in non-cash working capital		
Increase in accounts receivable	(6,196)	-
Increase in due from pension plans - operating costs	(1,059,853)	(258,952)
Increase (decrease) in accounts payable and accrued liabilities	(145,395)	866,739
Increase in accrued salary and wages	383,492	254,334
	<u>(468,608)</u>	<u>897,272</u>
Investing activities		
Acquisition of capital assets	(1,047,630)	(916,339)
Financing activities		
Increase in due to pension plans - capital advances	688,286	881,188
Share capital	-	1
	<u>688,286</u>	<u>881,189</u>
Increase (decrease) in cash for the period	(827,952)	862,122
Cash at beginning of period	862,122	-
Cash at end of period	<u>\$ 34,170</u>	<u>\$ 862,122</u>

ALBERTA PENSIONS ADMINISTRATION CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1996

Note 1 Authority

The Alberta Pensions Administration Corporation was incorporated on August 10, 1995 under the Business Corporation Act, Chapter B-15, Statutes of Alberta, and commenced operations on November 1, 1995. The issued share of the Corporation is owned by the Province of Alberta, and accordingly the Corporation is exempt from income taxes.

Note 2 Nature of Operations

The Provincial Treasurer of Alberta operating under the authority of the Public Sector Pension Plans Act, Chapter P-30.7, Statutes of Alberta 1993, as amended, is responsible for administering several Alberta public sector pensions plans. On November 1, 1995, the Provincial Treasurer transferred all of the pension administration operations, including all related computer hardware, computer software, office furniture and equipment to the Corporation.

By agreement dated November 1, 1995, between the Provincial Treasurer, as administrator of the pension plans, and the Corporation, the Corporation is to provide administrative services, on a cost recovery basis, for the period November 1, 1995 through March 31, 1999 to the following pension plans:

- The Local Authorities Pension Plan
- The Public Service Pension Plan
- The Universities Academic Pension Plan
- The Special Forces Pension Plan
- The Management Employees Pension Plan
- The Public Service Management (Closed Membership) Pension Plan
- The Members of the Legislative Assembly Pension Plan
- The Provincial Judges and Masters In Chambers Pension Plan

All administrative services required by the pension plans are provided by the Corporation. These services include the collection of contributions, payment of benefits and refunds, communication to stakeholders, pension plan board support services and other services specifically approved by individual pension boards.

Note 3 Significant Accounting Policy

Capital Assets

Capital assets are recorded at cost.

Capital assets are amortized on a straight line basis over the estimated useful life of the asset as follows:

Computer equipment	2 to 3 years
Computer software	2 to 3 years
Telephone system	3 years
Furniture and equipment	5 years

Capital assets under construction including software development projects are not amortized until completion and implementation.

Note 4 Cash

Cash consists of deposits in the Consolidated Cash Investment Trust Fund of the Province of Alberta. The Fund is invested primarily in securities maturing in less than one year which are either issued or guaranteed by the Canadian federal and provincial governments, deposits given by or guaranteed by chartered banks, or short-term investment-grade-quality notes of Canadian corporations. Interest is earned on the daily cash balance at the average rate of earnings of the Fund which varies depending on prevailing market interest rates. Interest earned is applied against operating expenses to reduce total administrative costs of the plans.

Note 5 Capital Assets

	1996		1995	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	\$ 447,922	\$ 176,400	\$ 271,522	\$ 278,741
Computer software	154,314	86,384	67,930	133,940
Telephone system	42,515	1,181	41,334	-
Furniture and equipment	9,157	755	8,402	2,174
Software development projects	191,891	129,774	62,117	94,341
Technology Process Re-engineering	1,118,169	-	1,118,169	371,992
	<u>\$ 1,963,968</u>	<u>\$ 394,494</u>	<u>\$ 1,569,474</u>	<u>\$ 881,188</u>

The Corporation has suspended work on technology process re-engineering pending assessment of client service requirements and development of plans to minimize the risk associated with technology change. The cost capitalized for the project to December 31, 1996 is \$1,118,169. If this project does not proceed, the costs incurred to date will be amortized over the remaining useful life of the work accomplished.

Note 6 Due to Pension Plans - Capital Advances

The Corporation receives non-interest bearing advances from each of the pension plans to finance the acquisition or development of capital assets.

Note 7 Share capital

	1996	1995
Authorized		
Unlimited number of common shares		
Unlimited number of preferred shares		
Issued		
1 common share, for cash	<u>\$1</u>	<u>\$1</u>

Note 8 Service Revenue

The Corporation charged each pension plan with its respective share of the Corporation's operating costs, including the periodic amortization of capital assets:

	1996	1995
The Local Authorities Pension Plan	\$ 4,653,314	\$ 953,191
The Public Service Pension Plan	2,259,296	510,595
The Universities Academic Pension Plan	391,025	125,731
The Special Forces Pension Plan	247,469	106,006
The Management Employees Pension Plan	315,416	98,616
The Public Service Management (Closed Membership) Pension Plan	101,740	39,168
The Members of the Legislative Assembly Pension Plan	52,105	9,104
The Provincial Judges and Masters in Chambers Pension Plan	62,194	11,075
Total Service Revenue	<u>\$ 8,082,559</u>	<u>\$ 1,853,486</u>

Note 9 Related Party Transactions

The Department of Public Works, Supply and Services provides data processing services to the Corporation as a provincial agency, for an annual fee of approximately \$375,000. PSC Payment System Corporation provides payroll and pension benefit payment services to the Corporation, for an annual fee of approximately \$40,000.

The Corporation has entered into an agreement, until March 31, 1999, with the Province of Alberta to supply manpower on a cost basis to operate the business. Pursuant to the terms of the staff services agreement, the Corporation is not liable for the cost of vacation pay which has been earned by the employees but not yet paid by the Province. If the Corporation does not renew or extend the agreement at March 31, 1999, the cost of earned vacation would become a liability of the Corporation. On an annual basis, an average of 2,960 days of vacation are earned. The approximate value of earned vacation pay at December 31, 1996 was \$410,000. It is the policy of the Corporation to provide staff with time off to take vacation earned in the prior year.

The following information summarizes manpower costs paid to the Province of Alberta:

	1996				1995(1)	
	Number of Individuals(2)	Salary(3)	Benefits and Allowances(4)	Total	Number of Individuals	Total
Executives						
President ⁽⁵⁾	1	\$ 91,619	\$ 5,720	\$ 97,339	1	\$ 17,579
Chief Operating Officer ⁽⁵⁾	1	18,107	4,201	22,308	-	-
Director Operations	1	54,620	8,678	63,298	1	20,098
Director Finance	1	67,004	3,999	71,003	1	20,002
Secretary Pension Boards	1	61,033	12,259	73,292	1	11,600
Other managers (average 1996 \$58,855)	8	388,166	82,675	470,841	9	65,714
Other full-time staff						
Professional, Technical (average 1996 \$43,507)	39	1,441,634	255,124	1,696,758	43	329,871
Admin. Support (average 1996 \$30,152)	73	1,840,969	360,135	2,201,104	83	384,483
Non-salaried staff		300,621	62,007	362,628		42,707
		<u>\$ 4,263,773</u>	<u>\$ 794,798</u>	<u>5,058,571</u>		<u>892,054</u>
Plus: Other payments				154,243		227,799
Less: Staff costs capitalized				<u>(306,027)</u>		<u>(74,000)</u>
Amount Expensed per Financial Statement				<u>\$ 4,906,787</u>		<u>\$ 1,045,853</u>

(1) The comparative figures are for the two months November and December 1995.

(2) Average number of individuals employed during the year.

(3) Salaries include regular base pay, overtime, honoraria, Productivity Plus awards and other direct cash remuneration.

(4) Benefits and allowances include employer's share of benefits provided, including pensions, health care, dental, group life insurance, long-term disability plans, workers' compensation, payments in lieu of vacation earned but not taken, professional memberships and tuition.

(5) Salary and benefit figures for the President are for the period January 1, through September 15, 1996. This position was replaced with the Chief Operating Officer position for the remainder of the reporting period.

Note 10 Board Fees

Included in contract services are APA board fees paid to members who are not Provincial Government employees. The following summarizes payments made:

	1996			1995	
	Number of Individuals	Salary	Total	Number of Individuals	Total
Chairman of APA Board	1	\$ 3,000	\$ 3,000	1	\$ -
Board Members	3	6,000	6,000	3	-
Total APA Board Fees		<u>\$ 9,000</u>	<u>\$ 9,000</u>		<u>\$ -</u>

Note 11 Plan Specific Costs

The Corporation makes certain payments on behalf of the pension plans. These costs, which are incurred directly by the pension plans, and which the Corporation does not control, are as follows:

	Actual 1996	Budget 1996	Actual 1995
Pension board remuneration	\$ 205,990	\$ 174,000	\$ 24,056
Contract services	522,096	773,000	421,453
Materials and supplies	209,826	273,000	43,386
	<u>\$ 937,912</u>	<u>\$ 1,220,000</u>	<u>\$ 488,895</u>

Note 12 Pension Liability

Alberta Pensions Administration Corporation, pursuant to a staff services agreement, reimburses Alberta Treasury for participation of contracted employees in the Public Service and Management Employees Pension Plans. These plans provide pensions for employees based on years of service and earnings.

The unfunded pension liability, as at December 31, 1996, associated with Treasury employees contracted to the Corporation is included in amounts disclosed in the Public Accounts of the Province of Alberta. Should these contracted employees become employees of the Corporation, the estimated unfunded pension liability assumed by the Corporation, would be as follows:

	1996	1995
Public Service Pension Plan	\$ 292,860	\$ 327,050
Management Employees Pension Plan	310,122	254,820
	<u>\$ 602,982</u>	<u>\$ 581,870</u>

The total unfunded pension liability for each plan as at December 31, 1996 was determined by actuarial valuation as at December 31, 1995 for the Public Service Pension Plan and as at December 31, 1994 for the Management Employees Pension Plan, both extrapolated to December 31, 1996.

The actuarial valuations were determined using the projected benefit method prorated on service. Assumptions used in the valuations are based on each pension board's best estimate of future events. Each plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will be amortized over the expected average remaining service life of the employee group.

The Public Sector Pension Plans Act provides the basis for determining the amount of the total unfunded liability for each plan which will be funded by employers. The Corporation pays Treasury's employer share of the unfunded liability through a monthly payroll surcharge.

Note 13 Commitments

The Corporation has entered into a sub-lease arrangement with the Province of Alberta for office premises until December 31, 2002.

Minimum annual rental commitments are as follows:

1997	\$ 504,000
1998 to 2002	\$ 518,000

The Corporation has entered into an agreement for provision of pension payroll services until March 31, 1998. The maximum amount payable for the remainder of the contract is \$181,500.

Note 14 Budget

The 1996 Budget was approved by the Board of Directors on November 20, 1995.

Note 15 Comparative Figures

Comparative figures have been restated to be consistent with the 1996 presentation.

ALBERTA SECURITIES COMMISSION
FINANCIAL STATEMENTS
MARCH 31, 1997

Auditor's Report
Balance Sheet
Statement of Revenue, Expense and Retained Earnings
Statement of Cash Flows
Notes to the Financial Statements
Schedule of Salaries and Benefits

AUDITOR'S REPORT

To the Members of the Alberta Securities Commission

I have audited the balance sheet of the Alberta Securities Commission as at March 31, 1997 and the statements of revenue, expense and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
May 2, 1997

ALBERTA SECURITIES COMMISSION
BALANCE SHEET
MARCH 31, 1997

	1997	1996
ASSETS		
Current:		
Cash	\$ 10,145,411	\$ 4,120,994
Accounts receivable	161,790	131,570
Work-in-progress and other	43,310	58,699
	<u>10,350,511</u>	<u>4,311,263</u>
Capital assets (Note 3)	792,274	561,623
	<u>\$ 11,142,785</u>	<u>\$ 4,872,886</u>
LIABILITIES AND RETAINED EARNINGS		
Current:		
Accounts payable and accrued liabilities	\$ 519,053	\$ 860,545
Unearned revenue	677,522	635,421
Current portion of lease inducement	40,158	-
	<u>1,236,733</u>	<u>1,495,966</u>
Lease inducement (Note 5)	120,474	-
Unfunded pension amount (Note 4)	135,746	717,288
	<u>1,492,953</u>	<u>2,213,254</u>
Retained earnings	9,649,832	2,659,632
	<u>\$ 11,142,785</u>	<u>\$ 4,872,886</u>

Approved by the Members:

W.L. Hess, Q.C.
Chair

Ian E.W. McConnan, FCA
Member

The accompanying notes and schedule are part
of these financial statements.

ALBERTA SECURITIES COMMISSION
STATEMENT OF REVENUE, EXPENSE AND RETAINED EARNINGS
FOR THE YEAR ENDED MARCH 31, 1997
(with comparative figures for the ten month period ended March 31, 1996)

	1997	1996
	Budget (Note 8)	Actual
Revenue:		
Fees	\$ 8,241,301	\$ 11,763,948
Interest	300,000	325,932
Other	168,190	226,552
	<u>8,709,491</u>	<u>12,316,432</u>
Expense:		
Salaries and benefits, Schedule 1	4,368,393	4,247,146
Premises	451,871	391,267
Materials and supplies	202,300	304,178
Contract services	456,500	228,123
Travel	173,460	164,098
Amortization	80,000	140,503
Telephone and communications	117,600	96,330
Member fees, Schedule 1	130,000	67,700
Other	169,400	236,622
	<u>6,149,524</u>	<u>5,875,967</u>
Net income before extraordinary item	2,559,967	6,440,465
Extraordinary item (Note 6)	-	549,735
Net income	2,559,967	6,990,200
Retained earnings at beginning of period	2,659,632	2,659,632
Excess of liabilities over assets assumed		
June 1, 1995 (Note 1)	-	-
Contributed leasehold improvements	-	-
Retained earnings at end of period	<u>\$ 5,219,599</u>	<u>\$ 9,649,832</u>
		<u>\$ 2,659,632</u>

ALBERTA SECURITIES COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 1997
(with comparative figures for the ten month period ended March 31, 1996)

	1997	1996
Cash provided by operations:		
Net income	\$ 6,990,200	\$ 3,197,202
Lease inducement received	199,646	-
Amortization	101,490	65,580
Extraordinary item (Note 6)	(549,735)	-
	<u>6,741,601</u>	<u>3,262,782</u>
Changes in non-cash working capital relating to operations:		
Accounts receivable	(30,220)	742,280
Work-in-progress and other	15,390	(4,200)
Accounts payable and accrued liabilities	(341,493)	610,969
Unearned revenue	42,101	(239,579)
Reduction of unfunded pension amount	(31,807)	(119,991)
Cash from operations	<u>6,395,572</u>	<u>4,252,261</u>
Cash provided by financing activities		
Contributed leasehold improvements	-	162,343
Cash used in investing activities		
Purchase of capital assets	(371,155)	(294,760)
Cash assumed from the Province of Alberta	-	1,150
Change in cash during the period	<u>6,024,417</u>	<u>4,120,994</u>
Cash at beginning of period	4,120,994	-
Cash at end of period	<u>\$ 10,145,411</u>	<u>\$ 4,120,994</u>

ALBERTA SECURITIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997

Note 1 Nature of Operations

The Alberta Securities Commission (the "Commission") was created as a Provincial Corporation on June 1, 1995 by the Securities Act (Alberta) (the "Act"). The business of the Commission is a continuance of the regulatory activities previously conducted by Alberta Treasury. Effective June 1, 1995, the Commission assumed net liabilities amounting to \$699,913 from the Province of Alberta.

The Lieutenant Governor in Council designates the Commission's members and sets the fees that the Commission charges participants in the Alberta capital market. The Commission is responsible for the regulation of the Alberta capital market, including the administration of the Act, the Securities Regulation, and the Alberta Securities Commission Rules. In carrying out these responsibilities, the Commission strives to balance the needs of investors for adequate protection with the needs of industry to access investment capital necessary for continued economic growth.

Note 2 Significant Accounting Policies

(a) Capital Assets

Capital assets are recorded at cost. Assets assumed from the Province of Alberta by the Commission at the commencement of business have been accounted for at historic cost less accumulated amortization. The Commission capitalizes labour and out of pocket costs for significant individual systems development projects. Assets are amortized over their estimated useful lives as follows:

Computer equipment	5 years straight-line
Furniture and equipment	10 years straight-line
Systems development costs	5 years straight-line
Leasehold improvements	Straight-line over the ten year lease term

(b) Revenue Recognition

Cost recoveries from Commission Orders and Settlement Agreements are recognized as revenues when cash is received. Fees are recognized as revenue when the relevant order, receipt, certificate or other acknowledgement is issued. Fees received concerning matters in progress at year end are recorded as unearned revenue and an estimate of labour costs on these matters is recorded as work-in-progress.

(c) Pension Costs

Pension costs and recoveries are included in salaries and benefits. Pension costs and recoveries comprise: the cost of pension benefits earned by employees during the year; interest on the Commission's share of the unfunded pension amount; the amortization of deferred adjustments over the expected average remaining service life of employees which relate to the long term; adjustments to the pension obligation recognized immediately if there is reasonable assurance that a gain or loss has been realized; and the effect of the change in the ratio used to allocate the plan's total unfunded amount to participating entities.

(d) Cash payments received as lease inducements are deferred and amortized on a straight line basis over the lease term.

Note 3 Capital Assets

	1997		1996
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 401,146	\$ 189,840	\$ 211,306
Furniture and equipment	175,747	54,786	120,961
Systems development costs	110,021	38,507	71,514
Leasehold improvements	422,198	33,705	388,493
	<u>\$ 1,109,112</u>	<u>\$ 316,838</u>	<u>\$ 792,274</u>
			<u>\$ 561,623</u>

Note 4 Unfunded Pension Amount

During the year, the Commission participated with other members in the Public Service Pension Plan and up to January 1, 1997, in the Management Employees Pension Plan (see note 6). These plans provide pensions for the Commission's participating employees based on years of service and earnings.

The Commission has an unfunded pension amount of \$135,746 for the Public Service Pension Plan as at March 31, 1997. This amount was determined by actuarial valuation as at December 31, 1995 extrapolated to March 31, 1997.

The actuarial valuation was determined using the projected benefit method prorated on service. Assumptions used in the valuation are based on the Pension Board's best estimate of future events. The Plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses which relate to the long-term are amortized over the expected average remaining service life of the employee group. Gains and losses for which there is reasonable assurance regarding their measurement and realization are recognized in income immediately.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded amount for the plan that will be funded by employers. The Commission's portion of those employers' liabilities was based on the Commission's percentage of the total pensionable payroll of all employers in the Plan.

Note 5 Lease Inducement

Pursuant to a ten year lease agreement effective April 1, 1996 the Commission received from its landlord a lease inducement of \$199,645 and is entitled to a further \$199,645 at the beginning of year six. Amortization for each year is \$40,158.

Note 6 Extraordinary Item

Effective January 1, 1997, the Commission's participation in the Management Employees Pension Plan was terminated by the Management Employees Pension Plan Board. As a result, the Commission has recognized the corresponding reduction of the unfunded pension amount in this Plan as an extraordinary item. The total amount of the reduction is \$549,735.

Note 7 Lease Obligations

Future minimum operating lease payments for premises and equipment for each of the next 5 years and in aggregate are as follows:

1998	\$ 468,687
1999	459,786
2000	456,215
2001	456,215
2002	515,082
Thereafter	2,022,723
Total	<u>\$ 4,378,708</u>

Note 8 Budget

The members approved the Commission's 1996-97 budget on March 7, 1996.

Note 9 Contingencies

The Commission is involved in various legal proceedings arising from its regulatory activities. Management considers the chance of liability under these legal proceedings not to be determinable and accordingly an estimate of any contingent loss cannot be made.

Note 10 Comparative Figures

The comparative figures are for the ten month period from June 1, 1995 to March 31, 1996. Certain 1996 figures have been reclassified where necessary to conform to 1997 presentation.

ALBERTA SECURITIES COMMISSION
SCHEDULE OF SALARIES AND BENEFITS
FOR THE YEAR ENDED MARCH 31, 1997
(with comparative figures for the ten month period ended March 31, 1996)

	1997				1996	
	Number of Individuals (2)	Salary(3)(4)	Benefits and Allowances (5)(6)	Total	Number of Individuals	Total(1)
Securities Commission Members (part-time)	7	\$ 67,700	\$ -	\$ 67,700	7	\$ 68,030
Chair, Securities Commission	1	\$ 246,100	\$ 14,235	\$ 260,335	1	\$ 211,976
Executive Director	1	112,956	13,830	126,786	1	83,913
Directors						
Securities Analysis	1	80,096	17,610	97,706	1	61,139
Market Standards	1	82,150	14,317	96,467	1	61,779
Finance and Administration	1	71,881	17,643	89,524	1	65,507
Secretary to the Commission	1	83,063	6,968	90,031	1	55,833
Legal Services and Policy						
Development	0.7	65,418	15,585	81,003	1	74,745
Capital Markets	1	65,978	11,969	77,947	1	48,983
Senior Enforcement Counsel	0.7	62,667	7,694	70,361	1	-
Other Management Employees (average 1997 \$67,322, 1996 \$54,933)	8.6	498,075	80,891	578,966	5	274,664
Professional, technical (average 1997 \$53,285, 1996 \$55,436)	15.5	714,415	111,497	825,912	13	720,671
Legal (average 1997 \$75,919, 1996 \$65,852)	6.8	457,664	58,588	516,252	5	329,260
Support staff (average 1997 \$31,102, 1996 \$25,654)	31.9	848,233	143,933	992,166	27	692,675
Part-time and casual wage staff	5.6	144,327	2,221	146,548	10	188,120
		<u>\$3,533,023</u>	<u>\$516,981</u>	4,050,004		2,869,265
Termination benefits				137,047		126,082
Net change in accrued vacation pay and work in progress				68,573		38,782
Conference fees, moving expenses, seconded personnel, and other				23,329		-
Adjustment to unfunded pension amount				(31,807)		(119,991)
				<u>\$4,247,146</u>		<u>\$2,914,138</u>

(1) 1996 is for a ten month period only and is not comparable to 1997.

(2) Number of individuals is the weighted average during the year.

(3) Salaries include regular base pay, overtime, lump sum payments, honoraria and other direct cash benefits.

(4) Effective January 1997, the Commission's participation in the Management Employees Pension Plan was terminated.

(5) Benefits and allowances include the Commission's share of benefits provided, including pensions, health care, dental, group life insurance, long-term disability, professional memberships and tuition.

(6) Benefits and allowances include the following vacation payouts for individuals separately identified: Director, Securities Analysis \$3,735; Director, Finance and Administration \$4,023; Director, Legal Services and Policy Development \$5,172; Director, Capital Markets \$2,256.

SECTION 2

1996-97

PUBLIC ACCOUNTS

COMMERCIAL ENTERPRISES - FINANCIAL STATEMENTS

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COMMERCIAL ENTERPRISES - FINANCIAL STATEMENTS

Introduction:

The Provincial corporations and enterprises included in this section operate on the basis of full cost supported by charges for goods or services with no subsidy from the General Revenue Fund.

The basis of accounting used by commercial enterprises is significantly different from that used for the General Revenue Fund. Adjusting financial statements of commercial enterprises to this different basis would result in the write-off of significant revenue earning assets. Commercial enterprises are included in the consolidated financial statements on an equity basis whereby the Government's investment is adjusted for unremitted earnings and to reflect its share of capital transactions including loans to or from the enterprise.

ALBERTA GAMING AND LIQUOR COMMISSION
FINANCIAL STATEMENTS
MARCH 31, 1997

Auditor's Report
Balance Sheet
Statement of Net Income
Statement of Remittances to the General Revenue Fund
Statement of Remittances to the Lottery Fund
Statement of Changes in Financial Position
Notes to the Financial Statements
Schedule of Video Lottery and Casino Gaming Operations
Schedule of Ticket Lottery Operations

AUDITOR'S REPORT

To the Members of the
Alberta Gaming and Liquor Commission

I have audited the balance sheet of the Alberta Gaming and Liquor Commission as at March 31, 1997 and the statements of net income, remittances to the General Revenue Fund, remittances to the Lottery Fund and changes in financial position for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
June 6, 1997

ALBERTA GAMING AND LIQUOR COMMISSION
BALANCE SHEET
AS AT MARCH 31, 1997
(thousands of dollars)

	March 31, 1997	March 31, 1996
ASSETS		
Current:		
Cash and term deposits	\$ 67,252	\$ 38,455
Accounts receivable	19,629	21,956
Prepaid expenses and inventories (Note 4)	5,082	6,237
Current portion of mortgages receivable	-	277
	<u>91,963</u>	<u>66,925</u>
Mortgages receivable (Note 5)	8,357	8,154
Capital assets (Note 6)	55,001	58,938
	<u><u>\$ 155,321</u></u>	<u><u>\$ 134,017</u></u>
LIABILITIES AND APPROPRIATION		
Current:		
Accounts payable and accrued liabilities	\$ 53,244	\$ 47,004
Due to the Lottery Fund (Note 7)	17,988	12,634
Due to the General Revenue Fund (Note 8)	9,130	1,188
	<u>80,362</u>	<u>60,826</u>
Due to the Lottery Fund (Note 7)	50,510	50,331
Provision for loss on leased properties	8,740	7,813
Pension liability (Note 9)	1,195	1,534
	<u>60,445</u>	<u>59,678</u>
Appropriation for capital (Note 10)	138,000	138,000
Remittances in excess of net income remittable to the General Revenue Fund	(123,486)	(124,487)
Net appropriation for capital	<u>14,514</u>	<u>13,513</u>
	<u><u>\$ 155,321</u></u>	<u><u>\$ 134,017</u></u>

The accompanying notes and schedules are
part of these financial statements.

Approved by Management:

Norman C. Peterson, CA
Chairman (Acting)

Roy Bricker
Chief Executive Officer (Acting)

ALBERTA GAMING AND LIQUOR COMMISSION
STATEMENT OF NET INCOME
FOR THE YEAR ENDED MARCH 31, 1997
(thousands of dollars)

	Budget 1997	Actual 1997	Actual 1996
	(Note 11)		
Liquor sales		\$1,011,604	\$967,536
Cost of liquor sold		583,919	535,356
Gross profit on liquor sales	\$ 428,000	427,685	432,180
Gross income from video lottery and casino gaming operations (Schedule 1)	439,421	476,785	428,024
Gross income from ticket lottery operations (Schedule 2)	153,079	147,167	154,672
Other income (Note 12)	7,114	12,328	12,341
Grant from the General Revenue Fund (Note 8)	75,633	66,503	28,133
Operating expenses (Note 13)	(75,633)	(66,503)	(79,209)
Net income for the year	<u>\$1,027,614</u>	<u>\$1,063,965</u>	<u>\$976,141</u>

ALBERTA GAMING AND LIQUOR COMMISSION
STATEMENT OF REMITTANCES TO THE GENERAL REVENUE FUND
FOR THE YEAR ENDED MARCH 31, 1997
(thousands of dollars)

	Budget 1997	Actual 1997	Actual 1996
Remittances in excess of net income remittable to the General Revenue Fund, beginning of year	\$ (124,487)	\$ (124,487)	\$ (56,519)
Net income for the year	1,027,614	1,063,965	976,141
Remittable to the Lottery Fund	(592,500)	(623,952)	(554,881)
Remittances to the General Revenue Fund	<u>(425,000)</u>	<u>(439,012)</u>	<u>(489,228)</u>
Remittances in excess of net income remittable to the General Revenue Fund, end of year	<u>\$ (114,373)</u>	<u>\$ (123,486)</u>	<u>\$ (124,487)</u>

ALBERTA GAMING AND LIQUOR COMMISSION
STATEMENT OF REMITTANCES TO THE LOTTERY FUND
FOR THE YEAR ENDED MARCH 31, 1997
(thousands of dollars)

	Budget 1997	Actual 1997	Actual 1996
Due to the Lottery Fund, beginning of year	\$ 62,965	\$ 62,965	\$ 58,467
Remittable to the Lottery Fund	592,500	623,952	554,881
Remittances to the Lottery Fund	<u>(592,500)</u>	<u>(618,419)</u>	<u>(550,383)</u>
Due to the Lottery Fund, end of year	<u>\$ 62,965</u>	<u>\$ 68,498</u>	<u>\$ 62,965</u>

ALBERTA GAMING AND LIQUOR COMMISSION
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997
(thousands of dollars)

	Actual 1997	Actual 1996
Cash from operations:		
Net income for the year	\$ 1,063,965	\$ 976,141
Increase in provision for loss on leased properties	927	6,313
Amortization	20,096	17,025
Loss on disposal of capital assets	127	154
Increase in amount due to the General Revenue Fund	7,942	1,188
Decrease in pension liability	(339)	(445)
Net change in non-cash working capital balances	9,722	(4,452)
	1,102,440	995,924
Remittances to the Lottery Fund	(618,419)	(550,383)
Remittances to the General Revenue Fund	(439,012)	(489,228)
	45,009	(43,687)
Cash used for investments:		
Purchase of capital assets	(17,121)	(6,880)
Proceeds on disposal of capital assets	835	732
Reduction of mortgages receivable	74	277
	(16,212)	(5,871)
Increase (decrease) in cash and term deposits	28,797	(49,558)
Cash and term deposits, beginning of year	38,455	88,013
Cash and term deposits, end of year	<u>\$ 67,252</u>	<u>\$ 38,455</u>

ALBERTA GAMING AND LIQUOR COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997
(tabular amounts in thousands)

Note 1 Authority and Purpose

The Alberta Gaming and Liquor Commission (the Commission) operates under the authority of the Gaming and Liquor Act, Chapter G-0.5, Statutes of Alberta 1996. The act was proclaimed in force July 15, 1996.

The Commission conducts and manages provincial lotteries, carries out functions respecting gaming under the Criminal Code of Canada, and controls, in accordance with legislation, the manufacture, importation, sale and purchase of liquor for the Government of Alberta.

The net proceeds arising from the conduct of authorized ticket lottery, video lottery and casino gaming operations in Alberta are remittable to the Lottery Fund. The net proceeds of liquor operations and other income are remittable to the General Revenue Fund.

The Commission is a Crown agent of the Government of Alberta and as such, has a tax-exempt status.

Note 2 Basis of Presentation

Effective July 15, 1996, the operations, assets and liabilities of the Alberta Liquor Control Board, Alberta Lotteries, Alberta Lotteries and Gaming, Gaming Control Branch and the Alberta Gaming Commission were merged into the Alberta Gaming and Liquor Commission.

The nature of the business combination is such that it represents a continuation of the previous entities and, accordingly, has been accounted for by the continuity of interest method. Under this method, the financial statements reflect the combined historical carrying values of the assets, liabilities, net assets and the historical operating results of all the combining entities, as if they had been combined since their inception.

The assets and liabilities, at book values, at the date of combination are as follows:

Entity	Assets	Liabilities	Net Assets
Alberta Lotteries	\$ 101,656	\$ 101,656	\$ -
Alberta Liquor Control Board	70,606	58,931	11,675
	<u>\$ 172,262</u>	<u>\$ 160,587</u>	<u>\$ 11,675</u>

Revenue, expenses and net income of the combined entities from April 1, 1996 to July 15, 1996 are as follows:

Entity	Revenue	Expenses	Net Income
Alberta Lotteries	\$ 634,575	\$ 459,061	\$ 175,514
Alberta Liquor Control Board	297,809	170,197	127,612
	<u>\$ 932,384</u>	<u>\$ 629,258</u>	<u>\$ 303,126</u>

The amounts for Alberta Lotteries and Gaming, Gaming Control Branch and Alberta Gaming Commission are immaterial and are included in the above figures.

Note 3 Significant Accounting Policies and Reporting Practices

Joint Venture

Alberta's share of the operations of the Western Canada Lottery Corporation is accounted for as a joint venture.

Inventories

Supplies inventories are valued at weighted average cost which is not in excess of net replacement value.

Inventory held on behalf of liquor suppliers or agents, and related duties and taxes, are not recorded in the financial statements.

Capital Assets

Capital assets are stated at cost less accumulated amortization. Amortization is calculated on the straight-line method at annual rates which will reduce the original cost to estimated residual value over the useful lives of the assets, as follows:

Buildings and leasehold improvements	2.5% or 10% (or lease term)
Gaming systems and equipment	20% or 33.3%
Furniture and equipment	10% or 20%
Retailer fixtures and signage	20%
Computer software	33.3%
Vehicles	20% or 33.3%

Capital assets held for sale are stated at estimated net realizable value.

Write-downs of capital assets to estimated net recoverable amount or to net realizable value are included in accumulated amortization.

Pension Costs

Pension costs comprise: the cost of pension benefits earned by employees during the year; interest on the Commission's share of the unfunded pension liability; the amortization of deferred adjustments over the expected average remaining service life of employees which relate to the long term; realized gains and losses; and the effect of the change in the ratio used to allocate the plan's total unfunded liability to participating entities. The net expense or recovery is included as part of salaries and benefits in operating expenses.

Actuarial valuations were determined using the projected benefit method prorated on service. Assumptions used in the valuations are based on each Pension Board's best estimate of future events. Each plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses which relate to the long-term are amortized over the expected average remaining service life of the employee group. Gains or losses for which there is a reasonable assurance regarding their measurement and realization are recognized as income immediately.

Ticket Lottery Revenue

Ticket lottery revenue is recorded as of the date of the draw with the exception of instant game revenue, which is recognized at the time of sale to the retailer.

Note 4 Prepaid Expenses and Inventories

	1997	1996
Prepaid expenses	\$ 3,470	\$ 4,625
VLT parts	1,240	1,118
Supplies	372	416
Product	-	78
	<u>\$ 5,082</u>	<u>\$ 6,237</u>

Note 5 Mortgages Receivable

During fiscal 1993, the Alberta Liquor Control Board sold the Calgary warehouse for a total consideration of \$9,000,000. The Board entered into a first mortgage agreement with the purchaser in the amount of \$8,490,000, and a second mortgage agreement in the amount of \$500,000. Both mortgages are secured by a first charge on the property and chattels

As at March 31, 1997, the mortgages in the amount of \$8,357,000 are in default due to missed mortgage payments and non-payment of property taxes. As a consequence of the default, the mortgages are immediately repayable in full. The Commission has initiated foreclosure proceedings. The fair market value of the security is in excess of the mortgages and no loss is anticipated.

Note 6 Capital Assets

	March 31, 1997		March 31, 1996	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 4,113	\$ -	\$ 4,113	\$ 4,113
Buildings and leasehold improvements	50,887	36,637	14,250	14,990
Gaming systems and equipment	91,960	61,100	30,860	34,883
Furniture and equipment	27,258	24,241	3,017	1,965
Retailer fixtures and signage	9,120	7,270	1,850	1,642
Computer software	3,793	3,692	101	141
Vehicles	671	637	34	142
Other	1,958	1,182	776	1,062
	<u>\$ 189,760</u>	<u>\$ 134,759</u>	<u>\$ 55,001</u>	<u>\$ 58,938</u>

Note 7 Due to the Lottery Fund

This amount represents the portion of the revenues from lottery operations which has not been remitted to the Lottery Fund. The non-current portion represents the amount held back for capital assets and working capital requirements of video lottery, casino gaming and ticket lottery operations.

Note 8 Due to the General Revenue Fund

A \$75,633,000 advance from the General Revenue Fund, Department of Economic Development and Tourism was received during 1997 and was used to fund operating expenses. Actual operating expenses totalled \$66,503,000. The remaining balance of \$9,130,000 is repayable to the General Revenue Fund.

In 1996, expenses of liquor operations were paid from liquor revenues, and expenses of ticket lottery operations were paid from ticket lottery revenues. A \$29,321,000 advance from the General Revenue Fund, Department of Transportation and Utilities was received during 1996 and was used to fund expenses of video lottery operations and general administration expenses. Actual operating expenses funded from grant monies totalled \$28,133,000. The remaining balance of \$1,188,000 was repaid to the General Revenue Fund.

Expenses of liquor operations and ticket lottery expenses other than prizes, retailer commissions, payments to Government of Canada and federal tax expense, were provided for in the 1997 advance from the General Revenue Fund.

Note 9 Pension Liability

The Commission participates with other employers in the Public Service Pension Plan and the Management Employees Pension Plan. These plans provide pensions for the Commission's employees based on years of service and earnings.

The Commission had an unfunded pension liability for each plan as at March 31, which was as follows:

	1997	1996
Public Service Pension Plan	\$ 548	\$ 814
Management Employees Pension Plan	647	720
	<u>\$ 1,195</u>	<u>\$ 1,534</u>

The total unfunded pension liability for each plan as at March 31, 1997 was determined by actuarial valuations as at December 31, 1995 for the Public Service Pension Plan and as at December 31, 1994 for the Management Employees Pension Plan, both extrapolated to March 31, 1997. The 1996 comparatives were determined using the same valuation for the Management Employees Pension Plan, extrapolated to March 31, 1996 and using an actuarial valuation at December 31, 1993 for the Public Service Pension Plan, extrapolated to March 31, 1996.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded liability for each plan which will be funded by employers. The Commission's portion of those employers' liabilities was based on the Commission's percentage of the total pensionable payroll of all employers in each Plan.

Note 10 Appropriation for Capital

Under the Gaming and Liquor Act, Transitional Regulation, the Commission must maintain a capital account until March 31, 1998, to provide funds for acquiring land and buildings and maintaining other assets necessary to the liquor operations of the Commission.

Note 11 Budget

The Commission, in its annual business plan, includes its annual budget on a summarized basis. The summarized budget receives approval by the Minister responsible for the Alberta Gaming and Liquor Commission and becomes part of the estimates of the Government. The Government Estimates are approved by the Legislature.

Note 12 Other Income

	Actual 1997	Actual 1996
Licences and permits	\$ 6,911	\$ 7,088
Interest revenue	1,604	1,771
Miscellaneous	1,550	1,440
Liquor levies	1,199	643
Premises rental revenue	566	962
Retailer service fees	495	475
Fines and violations	130	116
Loss on disposals of capital assets	(127)	(154)
	<u>\$ 12,328</u>	<u>\$ 12,341</u>

Note 13 Operating Expenses

	Actual 1997	Actual 1996
Amortization	\$ 20,096	\$ 17,015
Salaries and benefits	17,020	16,937
Communications	5,338	5,757
Ticket printing	4,631	4,711
Property ^(a)	3,944	10,642
Equipment and vehicles	3,409	3,656
Media and media production	2,937	6,754
Fees and services	2,388	2,635
Stationery and supplies	1,380	1,545
Pari mutuel tax rebates	1,272	1,663
Insurance and bank charges	1,031	793
Travel and training	896	1,134
Miscellaneous	799	617
Data processing	725	663
Freight and product delivery	719	876
Presentations and publications	509	775
Retailer relations	69	551
Product expense	58	47
Promotions	11	495
Overhead and other	(729)	(911)
Reorganization costs	-	2,854
	<u>\$ 66,503</u>	<u>\$ 79,209</u>

^(a) Property expense includes a provision for loss of approximately \$1.7 million (1996 \$7.0 million) for estimated costs of lease obligations in excess of estimated sublease revenues.

Note 14 Contingent Liability - Lease Commitments

The Commission has a number of properties, primarily former retail liquor stores, that operate under lease arrangements with terms ranging from one to thirty-five years. Most of these properties have been subleased to third parties. The Commission remains liable for the leases should the sub-lessor default on their obligations to the Commission. The approximate rental under these lease arrangements is summarized as follows:

Fiscal	1997-98	\$ 3,009
	1998-99	2,783
	1999-2000	2,500
	2000-2001	2,293
	2001-2002	1,376
Balance to expiry		<u>14,318</u>
		<u>\$ 26,279</u>

Estimated future revenues to be derived from subleases amount to \$17,539,000 at March 31, 1997. Provision for loss has previously been made (see Note 13), where the payments to be received on the sub-leases are less than the lease payments to be made.

Note 15 Salaries and Benefits

	1997				1996	
	Average Number of Employees	Salary	Benefits ^(a)	Total	Average Number of Employees	Total
Senior Officers						
Chairman and CEO ^(b)	1	\$ 108	\$ 19	\$ 127	1	\$ 120
Chairman of Alberta Lotteries	-	-	-	-	1	1
Deputy Chairman	-	-	-	-	1	11
Board Member ^(c)	2	-	20	20	2	22
General Manager	-	-	-	-	-	39
Executive Directors						
Corporate Services ^(b)	1	103	7	110	1	103
Licensing ^(b)	1	86	16	102	1	101
Lottery Services	1	72	13	85	1	85
Other management staff (average 1997 \$62,510, average 1996 \$61,620)	49	2,443	620	3,063	50	3,081
Other full-time staff (union and excluded) (average 1997 \$39,618, average 1996 \$38,175)	267	9,220	1,358	10,578	308	11,758
Part-time and casual staff	-	565	41	606	-	566
Liquor Licensing Appeal Council ^(c)	3	4	-	4	4	15
		<u>\$12,601</u>	<u>\$2,094</u>	14,695		<u>15,902</u>
Alberta's portion of salaries and benefits paid by the Western Canada Lottery Corporation				2,253		1,081
Benefits paid for long-term disability employees				113		149
Accrued vacation pay adjustment				211		71
Unfunded pension liability adjustment				(339)		(445)
Liquor Licensing Appeal Council, included in external services expense				(4)		(15)
Part-time Board member costs, included in miscellaneous expense				(20)		(27)
Motor vehicle benefit, included in equipment and vehicles expense				(3)		(2)
Relocation expenses and other employment related benefits				114		223
Salaries and benefits (Note 13)				<u>\$17,020</u>		<u>\$16,937</u>

(a) Benefits include the Commission's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, short and long-term disability, professional memberships, tuition and automobile benefits.

(b) Effective April 22, 1997, the Chairman and Chief Executive Officer was appointed Deputy Minister of Energy. The Executive Director of Corporate Services and Chief Financial Officer, will serve as the Commission's Acting Chairman. The Executive Director of Licensing, will serve as Acting Chief Executive Officer.

(c) Part-time.

Note 16 Subsequent Event

On October 19, 1995, the Government of the Province of Alberta announced their intention to exercise an option to withdraw from the Western Canada Lottery Corporation by giving one year's prior written notice to the Provinces of Manitoba and Saskatchewan and to the Corporation to terminate its agreement. The issues that led Alberta to give their notice to withdraw from the Western Canada Lottery Corporation have now been resolved to Alberta's satisfaction and, accordingly, the Province of Alberta has, subsequent to the year end, rescinded their notice to withdraw from the Western Canada Lottery Corporation.

Note 17 Joint Venture - Ticket Lottery Operations

The joint venture conducted by Western Canada Lottery Corporation was accounted for using the proportionate consolidation method. The Commission has included in its accounts the following aggregate amounts:

	As at March 31,	
	1997	1996
Balance sheet:		
Current assets	\$ 28,022	\$ 23,034
Capital assets	6,940	10,978
	<u>\$ 34,962</u>	<u>\$ 34,012</u>
Current liabilities	\$ 14,685	\$ 15,909
Investment in joint venture	20,277	18,103
	<u>\$ 34,962</u>	<u>\$ 34,012</u>
	Year ended March 31,	
	1997	1996
Statement of net income:		
Gross income	\$ 147,167	\$ 154,672
Expenses	(20,992)	(24,961)
Net income	<u>\$ 126,175</u>	<u>\$ 129,711</u>
Statement of changes in financial position:		
Cash generated from operating activities	<u>\$ 132,083</u>	<u>\$ 130,782</u>
Cash used by investing activities	<u>\$ 747</u>	<u>\$ 965</u>

ALBERTA GAMING AND LIQUOR COMMISSION
 SCHEDULE OF VIDEO LOTTERY AND CASINO GAMING OPERATIONS
 FOR THE YEAR ENDED MARCH 31, 1997
 (thousands of dollars)

	Actual 1997	Actual 1996
Revenue		
Video lottery terminals	\$ 1,816,050	\$ 1,736,554
Casino gaming and electronic racing terminals	121,092	7,012
	<u>1,937,142</u>	<u>1,743,566</u>
Prizes		
Video lottery terminals	1,267,256	1,223,705
Casino gaming and electronic racing terminals	98,723	5,347
	<u>1,365,979</u>	<u>1,229,052</u>
Gross income from video lottery and casino gaming operations before the following:	571,163	514,514
Retailer commissions	(87,305)	(80,241)
Federal tax expense ^(a)	(7,073)	(6,249)
Gross income from video lottery and casino gaming operations	<u>\$ 476,785</u>	<u>\$ 428,024</u>

- ^(a) Taxes are paid to the Government of Canada in lieu of the Goods and Services Tax (GST) on ticket lottery, video lottery and casino gaming terminal sales based on a prescribed formula. This tax is in addition to the GST paid on the purchase of goods and services for which credit is denied under the formula.

ALBERTA GAMING AND LIQUOR COMMISSION
SCHEDULE OF TICKET LOTTERY OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1997
(thousands of dollars)

	Actual 1997	Actual 1996
Revenue		
Lotto 6/49	\$ 159,451	\$ 164,362
Instant	73,490	77,272
The Plus	37,706	38,113
Sport Select	35,112	39,813
Super 7	16,952	22,015
Pick 3	5,294	5,018
Pogo	5,047	5,607
Extra	4,329	5,467
Special event	1,508	2,320
	<u>338,889</u>	<u>359,987</u>
Prizes	164,728	176,525
Gross income from ticket lottery operations before the following	174,161	183,462
Retailer commissions	(19,522)	(20,755)
Payments to Government of Canada(a)	(4,956)	(5,067)
Federal tax expense(b)	(2,516)	(2,968)
Gross income from ticket lottery operations	<u>\$ 147,167</u>	<u>\$ 154,672</u>

- (a) This payment represents the Province of Alberta's share of payments to the Government of Canada as result of an agreement between the provincial governments and the federal government on the withdrawal of the federal government from the lottery field. The payment is made by the Western Canada Lottery Corporation on behalf of Alberta, and is based on current population statistics and its share of ticket lottery sales.
- (b) Taxes are paid to the Government of Canada in lieu of the Goods and Services Tax (GST) on ticket lottery, video lottery and casino gaming terminal sales based on a prescribed formula. This tax is in addition to the GST paid on the purchase of goods and services for which credit is denied under the formula.

THE ALBERTA GOVERNMENT TELEPHONES COMMISSION
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996

Auditor's Report
Consolidated Balance Sheet
Consolidated Statement of Revenue, Expenditure and Retained Earnings
Consolidated Statement of Changes in Financial Position
Notes to the Consolidated Financial Statements
Consolidated Schedule of Debenture Debt

AUDITOR'S REPORT

To the Members of
The Alberta Government Telephones Commission

I have audited the consolidated balance sheet of The Alberta Government Telephones Commission as at December 31, 1996 and the consolidated statements of revenue, expenditure and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
April 18, 1997

THE ALBERTA GOVERNMENT TELEPHONES COMMISSION
CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 1996
(thousands of dollars)

	1996	1995
ASSETS		
Cash and short-term deposits (Note 3)	\$ 77,594	\$ 65,085
Accounts receivable	931	2,707
Accrued interest receivable (Note 4)	29,790	33,460
Taxes recoverable	176	175
Notes receivable (Note 5)	800,000	950,000
Loans receivable (Note 6)	7,653	19,218
Other assets	1,225	1,825
	<u>\$ 917,369</u>	<u>\$ 1,072,470</u>
LIABILITIES AND EQUITY		
Bank overdraft (Note 7)	\$ 2,319	\$ 1,667
Accounts payable and accrued liabilities	30,670	35,701
Deferred income taxes	29,447	27,987
Debenture debt (Note 8)	800,000	950,000
Due to the Province of Alberta (Note 9)	54,152	56,328
	<u>916,588</u>	<u>1,071,683</u>
Equity:		
Retained earnings	-	-
Foreign currency translation adjustments (Note 10)	781	787
	<u>\$ 917,369</u>	<u>\$ 1,072,470</u>

The accompanying notes and schedule are part of these consolidated financial statements.

THE ALBERTA GOVERNMENT TELEPHONES COMMISSION
CONSOLIDATED STATEMENT OF REVENUE, EXPENDITURE
AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1996
(thousands of dollars)

	1996		1995
	Budget	Actual	
	(Note 15)		
Revenue:			
Interest on notes receivable	\$ 82,706	\$ 82,766	\$ 93,925
Interest premium (Note 5)	2,505	2,507	2,850
Interest on deposits	300	354	411
	<u>85,511</u>	<u>85,627</u>	<u>97,186</u>
Expenditure:			
Interest on debenture debt	82,706	82,766	93,925
Professional fees	-	-	3
	<u>82,706</u>	<u>82,766</u>	<u>93,928</u>
Net revenue from operations	2,805	2,861	3,258
Net revenue from discontinued operations (Note 11)	3,287	2,963	16,766
Excess of revenue over expenditure for the year	6,092	5,824	20,024
Retained earnings at beginning of year	-	-	-
	<u>6,092</u>	<u>5,824</u>	<u>20,024</u>
Contribution to the Province of Alberta	(6,092)	(5,824)	(20,024)
Retained earnings at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

THE ALBERTA GOVERNMENT TELEPHONES COMMISSION
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1996
(thousands of dollars)

	1996	1995
Operating Activities:		
Net revenue from operations	\$ 2,861	\$ 3,258
Changes in non-cash balances relating to operating transactions	87	4
	2,948	3,262
Discontinued operations (Note 11)	4,744	24,073
Cash provided by operating activities	7,692	27,335
Investing Activities:		
Decrease in notes receivable	150,000	-
Discontinued operations (Note 11)	12,165	66,972
Cash provided by investing activities	162,165	66,972
Financing Activities:		
Repayment of debenture debt	(150,000)	-
Increase (decrease) in amount due to the Province of Alberta	(2,176)	20,024
Contribution to the Province of Alberta	(5,824)	(20,024)
	(158,000)	-
Discontinued operations (Note 11)	652	(33,048)
Cash applied to financing activities	(157,348)	(33,048)
Increase in cash and short-term deposits	12,509	61,259
Cash and short-term deposits at beginning of year	65,085	3,826
Cash and short-term deposits at end of year	\$ 77,594	\$ 65,085

THE ALBERTA GOVERNMENT TELEPHONES COMMISSION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996

Note 1 Authority

The Alberta Government Telephones Commission operates under the authority of the Telecommunications Act, Chapter T-3.5, Statutes of Alberta 1988, as amended and the Alberta Government Telephones Reorganization Act, Chapter A-23.5, Statutes of Alberta 1990.

Note 2 Summary of Significant Accounting Policies

(a) Basis of Consolidation

These consolidated financial statements include the accounts of the following wholly-owned subsidiaries:

- 473654 Alberta Ltd. (in liquidation),
- 475342 Alberta Ltd. (in liquidation),
- NovAtel Communications Inc. (in liquidation),
- NFI Finance, Inc.,
- NovAtel Finance, Inc.,
- Systems Finance Inc., and
- Cellular Finance Inc.

All subsidiaries are considered to be discontinued. (see Note 11)

All significant transactions between these companies have been eliminated.

(b) Loans Receivable

Loans receivable are stated at cost, which includes principal amounts outstanding, less provisions for losses on loans. Interest on loans is recognized as income on the accrual basis unless the loans have been classified as non-performing.

All loans which have reached 90 days in arrears or for which, in management's judgment, reasonable doubt exists as to the ultimate collectibility of principal or interest, are classified as non-performing, and all unpaid interest income is reversed. Thereafter revenue is taken into income only as collected. Non-performing loans are stated at the lower of cost and estimated net realizable value.

Individual non-performing loans are reviewed regularly and if, in management's judgment, full recovery of principal is not expected, a specific provision for estimated losses is recorded. In addition, based on management's judgment, a general provision for loss is recorded to recognize unforeseeable losses in the loan portfolio.

(c) Deferred Income Taxes

Deferred income taxes are provided for all significant timing differences between the recognition of revenue and expenditure for financial statement and income tax purposes.

(d) Foreign Currency Translation

Commencing January 1, 1993, the foreign operations have been accounted for as self-sustaining operations. The assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the balance sheet date. Revenue and expenditures are translated at average exchange rates prevailing during the year. Foreign currency translation adjustments are deferred and included in a separate component of equity described as "Foreign Currency Translation Adjustments."

All other monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date. Gains and losses are translated at the average exchange rate prevailing during the year. The resulting gains or losses are included in the determination of excess of revenue over expenditure for the year.

(e) Valuation of Assets and Liabilities

Consistent with companies which are liquidating their operations, all assets and liabilities in liquidation are reflected at their estimated realizable value at the balance sheet date. Any gains or losses arising from revaluation of the assets and liabilities are included in the determination of excess of revenue over expenditure for the year.

Note 3 Cash and Short-term Deposits

	1996	1995
	(thousands of dollars)	
Bank deposits	\$ 1,604	\$ 908
CCITF account	46,098	37,121
Short-term investments	29,892	27,056
	<u>\$ 77,594</u>	<u>\$ 65,085</u>

The Consolidated Cash Investment Trust Fund is a demand account managed by Alberta Treasury with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is composed of high quality short-term and mid-term fixed income securities with a maximum term to maturity of five years.

Short-term investments is comprised of 90 day fixed rate US\$ term deposits issued by the Province of Alberta. These term deposits are reinvested as they mature. Due to the short-term nature of these investments, the stated book value approximates fair value.

Note 4 Accrued Interest Receivable

Accrued interest pertains to the following:

	1996	1995
	(thousands of dollars)	
Notes receivable	\$ 29,027	\$ 32,855
Loans receivable, net of provision	763	605
	<u>\$ 29,790</u>	<u>\$ 33,460</u>

Note 5 Notes Receivable

	1996	1995
	(thousands of dollars)	
Notes receivable	\$ 610,000	\$ 762,000
Sinking fund notes (Note 8)	190,000	188,000
	<u>\$ 800,000</u>	<u>\$ 950,000</u>

The notes receivable were issued by TELUS Communications Inc., a subsidiary of TELUS Corporation, on October 4, 1990 pursuant to a debt reorganization agreement between the Commission, the Province of Alberta, and TELUS. The notes are comprised of residual and sinking fund notes issued in series that exactly match the Commission's debenture debt.

The notes bear interest at rates ranging from 9.3% to 12.0%. The rate for each series is 0.3% greater than that of the corresponding Commission debenture debt series, representing an interest premium.

The notes matching those Commission debentures with sinking fund requirements are referred to as sinking fund notes.

Note 6 Loans Receivable

	1996	1995
	(thousands of dollars)	
Performing	\$ 10,188	\$ 22,875
Non-performing	1,344	1,505
	11,532	24,380
Provision for losses on loans	(3,879)	(5,162)
	<u>\$ 7,653</u>	<u>\$ 19,218</u>

Loans receivable represent amounts loaned under Loan and Security Agreements with companies holding cellular system licences in the United States to finance the acquisition of cellular system equipment, to finance expansion of operations and to meet working capital requirements.

The loans bear interest primarily at U.S. prime plus 2%, are repayable in US \$ commencing in the third year of their seven year term, and are secured by first charges on the licence holders' equipment and all other assets including, to the extent permitted by law, the licence, and a pledge of their capital stock or partnership interests.

Note 7 Bank Overdraft

	1996	1995
	(thousands of dollars)	
Bank overdraft	<u>\$ 2,319</u>	<u>\$ 1,667</u>

The bank overdraft is guaranteed by the Province of Alberta and is secured by a general assignment of book debts and a general securities agreement.

Note 8 Debenture Debt

Debentures are unconditionally guaranteed as to principal and interest by the Province of Alberta.

In accordance with debenture deeds, certain issues require annual sinking fund contributions of 1% of the principal amounts outstanding. Contributions are required for a period of 20 years before maturity. Sinking fund notes of TELUS Communications Inc. are held by the Commission to meet these sinking fund requirements.

One debenture has an early redemption provision at the Commission's option during the period 3 years to 6 months prior to maturity.

Anticipated requirements to meet debenture debt repayments and sinking fund provisions during the next five years are as follows:

	Debentures	Sinking Fund	Total
		(thousands of dollars)	
1997	\$ 400,000	\$ 2,000	\$ 402,000
1998	200,000	2,000	202,000
1999	50,000	2,000	52,000
2000	-	1,500	1,500
2001	-	1,500	1,500

Debenture maturity amounts are exactly offset by notes of TELUS Communications Inc. (Note 5).

Note 9 Due to the Province of Alberta

	1996	1995
	(thousands of dollars)	
Balance at beginning of year	\$ 56,328	\$ 36,304
Net revenue (expenditure) from discontinued operations:		
NFI Finance, Inc.	4,670	18,134
473654 Alberta Ltd.	(1,707)	(1,368)
	2,963	16,766
Net revenue from operations of the Commission	2,861	3,258
Payment made to the Province of Alberta	(8,000)	-
Balance at end of year	<u>\$ 54,152</u>	<u>\$ 56,328</u>

Pursuant to section 15 of the Telecommunications Act, the amount due to the Province of Alberta can be paid, with the approval of the Lieutenant Governor in Council, with money that the Commission determines to be surplus.

Note 10 Foreign Currency Translation Adjustments

	1996	1995
	(thousands of dollars)	(thousands of dollars)
Balance at beginning of year	\$ 787	\$ 1,264
Translation adjustments for year arising from changes in foreign exchange rates	(6)	(477)
Balance at end of year	<u>\$ 781</u>	<u>\$ 787</u>

Note 11 Discontinued Operations

Divestiture of NovAtel Communications Ltd.

In 1992, the Commission's wholly-owned subsidiary, NovAtel Communications Ltd. (NovAtel) underwent significant restructuring under which it:

- disposed of the cellular systems business and European operations to third parties, and
- disposed of the business of financing companies holding cellular system licences, the majority of land and buildings and certain other assets to subsidiary companies of the Commission.

The full amount of NovAtel's bank advances and long-term debt was assumed by the Province of Alberta through subsidiary companies of the Commission.

On May 29, 1992, the Commission disposed of 100% of the shares of NovAtel Communications Ltd. to a third party. Operating and divestiture losses incurred from January 1 to May 29, 1992 amounted to \$116.6 million. Net liabilities assumed by the Province of Alberta through subsidiary companies of the Commission were \$244.1 million at May 29, 1992.

Remaining subsidiaries of the Commission hold assets and liabilities retained from NovAtel after divestiture. The Commission, through third party managers, is divesting itself of all assets of these subsidiaries.

Change in Financial Position

	1996	1995
	(thousands of dollars)	(thousands of dollars)
Operating activities:		
Net revenue from subsidiary companies	\$ 2,963	\$ 16,766
Write down of other assets	-	707
Deferred income taxes	1,460	8,709
Other non-cash items	321	(2,109)
Cash provided by operating activities	<u>4,744</u>	<u>24,073</u>
Investing Activities:		
Decrease in loans receivable	11,565	66,972
Disposal of other assets	600	-
Cash provided by investing activities	<u>12,165</u>	<u>66,972</u>
Financing Activities:		
Increase (decrease) in bank loans	-	(33,245)
Increase (decrease) in bank overdrafts	652	197
Cash applied to financing activities	<u>652</u>	<u>(33,048)</u>
Cash provided by discontinued operations	<u>\$ 17,561</u>	<u>\$ 57,997</u>

Note 12 Contingencies

As a condition of the sale of NovAtel, the Commission through 473654 Alberta Ltd. assumed the liabilities resulting from the settlement of several lawsuits against NovAtel that existed at May 29, 1992. An estimate of the cost of defending and/or settling these claims has been included in the accrued liabilities at December 31, 1996.

473654 Alberta Ltd. and NovAtel filed a Statement of Claim for the payment of commissions due under a commission agreement between NovAtel and a cellular systems manufacturer. An estimate of the potential recovery for the benefit of the Company cannot be made.

473654 Alberta Ltd. is party to several other lawsuits, the potential outcomes of which are not determinable and, as a result, an estimate of loss cannot be made.

Note 13 Earn-out

On August 1, 1995 the Commission purchased from its subsidiary the right to receive, under certain conditions, amounts pursuant to the "earn-out" provisions of a 1992 agreement and a 1994 amending agreement. \$6,000,000 is payable in annual instalments due on April 1, 1996 to 1998, based on the payor's net income. Any unpaid balance is payable on April 1, 1999. The collectibility of the "earn-out" is uncertain as it is based on a number of contingent events and the payor's ability to pay. The Commission recognizes such revenue as income when realized.

Note 14 Fees and Benefits

The Commission and its subsidiaries did not pay any fees or benefits to their officers or directors in 1996 and 1995.
The Commission and its subsidiaries have no employees.

Note 15 Budget

The 1996 budget was approved by management on July 11, 1996.

Note 16 Comparative Figures

The 1995 figures have been reclassified where necessary to conform to 1996 presentation.

Note 17 Approval of Financial Statements

These financial statements were approved by the Commission.

ALBERTA GOVERNMENT TELEPHONES COMMISSION
CONSOLIDATED SCHEDULE OF DEBENTURE DEBT
AS AT DECEMBER 31, 1996
(thousands of dollars)

<u>Date of Issue</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Principal Outstanding</u>
Jan 15, 1987	Jan 15, 1997	9.0	\$ 200,000	\$ 200,000
Jul 8, 1987	Jul 8, 1997	9.5	200,000	200,000
Jul 7, 1988	Jul 7, 1998	9.6	200,000	200,000
Nov 15, 1979	Nov 15, 1999 *	11.7	50,000	50,000
May 31, 1983	May 31, 2003 *	11.5	150,000	150,000
Total Canadian				<u>\$ 800,000</u>

* issues requiring sinking fund contributions

ALBERTA INTERMODAL SERVICES LTD.
FINANCIAL STATEMENTS
DECEMBER 31, 1996

Auditor's Report
Balance Sheet
Statement of Net Earnings and Retained Earnings
Statement of Changes in Financial Position
Notes to the Financial Statements

AUDITOR'S REPORT

To the Shareholder of Alberta
Intermodal Services Ltd.

I have audited the balance sheet of Alberta Intermodal Services Ltd. as at December 31, 1996 and the statements of net earnings and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
March 5, 1997

ALBERTA INTERMODAL SERVICES LTD.
BALANCE SHEET
DECEMBER 31, 1996
(in thousands)

	1996	1995
ASSETS		
Current:		
Cash	\$ 182	\$ 26
Current portion of leases receivable (Note 4)	18	17
	<u>200</u>	<u>43</u>
Long-term portion of leases receivable (Note 4)	22	40
Capital assets (Note 5)	1,900	1,900
	<u>\$ 2,122</u>	<u>\$ 1,983</u>
LIABILITIES AND SHAREHOLDERS EQUITY		
Current:		
Accounts payable and accrued liabilities	\$ 4	\$ 6
Shareholder's equity:		
Share capital (Note 6)	1,132	1,132
Retained earnings	986	845
	<u>2,118</u>	<u>1,977</u>
	<u>\$ 2,122</u>	<u>\$ 1,983</u>

The accompanying notes are part
of these financial statements.

Approved on behalf of the Board:

Robert Bhatia
General Manager

Peter McNeil
Secretary Treasurer

ALBERTA INTERMODAL SERVICES LTD.
STATEMENT OF NET EARNINGS AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1996
(in thousands)

	1996		1995
	Budget	Actual	Actual
	(Note 7)		
Revenue:			
Interest	\$ 6	\$ 6	\$ 19
Lease revenue	136	136	138
Recovery of doubtful amounts	-	-	15
	<u>142</u>	<u>142</u>	<u>172</u>
Expenditure:			
Administrative expenditure	7	1	7
Environmental damage repair	-	-	2
	<u>7</u>	<u>1</u>	<u>9</u>
Net earnings for the year	135	141	163
Retained earnings at beginning of year	845	845	802
Excess of redemption value over book value shares redeemed	(75)	-	(120)
Retained earnings at end of year	<u>\$ 905</u>	<u>\$ 986</u>	<u>\$ 845</u>

ALBERTA INTERMODAL SERVICES LTD.
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1996
(in thousands)

	1996		1995
	Budget (Note 7)	Actual	Actual
Operating activities:			
Net earnings for the year	\$ 135	\$ 141	\$ 163
Net change in non-cash working capital	(1)	(2)	1
	<u>134</u>	<u>139</u>	<u>164</u>
Financing activities:			
Redemption of shares	(175)	-	(320)
Lease receivable	18	17	17
	<u>(157)</u>	<u>17</u>	<u>(303)</u>
Increase (decrease) in cash during the year	(23)	156	(139)
Cash at beginning of year	26	26	165
Cash at end of year	<u>\$ 3</u>	<u>\$ 182</u>	<u>\$ 26</u>

ALBERTA INTERMODAL SERVICES LTD.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1996

Note 1 Authority

The Company was incorporated under the Business Corporations Act, Chapter B-15, Statutes of Alberta 1981.

All the issued common shares of the Company are held by the Province of Alberta and accordingly the Company is exempt from income tax.

Note 2 Discontinuance of Operations

The Company ceased operations on December 31, 1993 and has since undertaken the sale or lease of its remaining assets. The current business plan for the Corporation proposes the dissolution of the company and the distribution of its assets to government by March 31, 1997 or as soon thereafter as practicable.

The Department of Economic Development and Tourism provided management services for the period from February 28, 1994 to September 14, 1996. Subsequent to that date management services have been provided by Alberta Treasury. The cost of these services are not reflected in these financial statements.

Note 3 Significant Accounting Policies

Capital Assets

Capital assets are carried at estimated net recoverable value.

Note 4 Leases of Calgary Land, Yard Improvements and Building

These assets have been leased to CP Rail Ltd., for five year terms under two separate lease agreements, the first being for land and yard improvements, and the second for the building.

Land and Yard Improvements Lease

The land and yard improvements are leased for \$133,000 per year, payable monthly until October 31, 1998. The lessee has an option to purchase the property for \$1,900,000 at any time during the lease. This is an operating lease and, accordingly, the property remains classified as a capital asset.

Future payments receivable under this lease are as follows:

	(in thousands)
1997	\$ 133
1998	111
	<u>\$ 244</u>

Building Lease

The building is leased for \$20,000 per year, until February 28, 1999 with a \$1 purchase option. This lease is classified as a sales type lease and accordingly the asset is classified as a lease receivable.

Future payments receivable under this lease are as follows:

	(in thousands)
1997	\$ 20
1998	20
1999	3
	<u>43</u>
Less amount representing imputed interest averaging 7%	3
Net present value of lease receivable	40
Less current portion of lease receivable	18
Long-term portion of lease receivable	<u>\$ 22</u>

Note 5 Capital Assets

	1996		1995
	Cost	Accumulated Amortization	Net
	(in thousands)		
Land and yard improvements	<u>\$ 2,286</u>	<u>\$ 386</u>	<u>\$ 1,900</u>
			<u>\$ 1,900</u>

Calgary land and yard improvements have been leased to CP Rail Ltd. (see Note 4).

Estimated net recoverable value of land and yard improvements is based on an appraisal conducted in May 1993.

The appraisal was based upon comparative land sales, and amortized reproduction costs of the yard improvements.

Note 6 Share Capital

The Company has authorized unlimited common shares without par value.

As at December 31, 1996 and 1995, 1,132 common shares were issued and outstanding for \$1,132,000.

Note 7 Budget

The budget for the year ended December 31, 1996 was approved by the Board of Directors on April 10, 1996.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 1996

Auditor's Report
Balance Sheet
Statements of Income and Equity
Statement of Changes in Financial Position
Notes to the Financial Statements
Schedule of Administration Expenses
Schedule of Salaries and Benefits

AUDITOR'S REPORT

To the Directors of the
Credit Union Deposit Guarantee Corporation

I have audited the balance sheet of the Credit Union Deposit Guarantee Corporation as at December 31, 1996 and the statements of income and equity and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
March 3, 1997

CREDIT UNION DEPOSIT GUARANTEE CORPORATION
BALANCE SHEET
DECEMBER 31, 1996
(thousands of dollars)

	1996	1995
ASSETS		
Cash	\$ 3,237	\$ 1,566
Investments (Note 3)	58,355	54,761
Accrued interest receivable	525	274
Due from credit unions	1,396	1,525
Loans receivable	574	747
Other assets	-	45
Capital assets (Note 4)	121	141
	<u>\$ 64,208</u>	<u>\$ 59,059</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 473	\$ 736
Financial assistance payable (Note 8)	-	17
Accrual for financial assistance (Note 8)	6,100	6,100
Deferred revenue	324	342
Amounts due to and investment in S C Financial Ltd. (Note 5)	4,630	4,274
	<u>11,527</u>	<u>11,469</u>
Commitments and Contingencies (Note 7)		
EQUITY		
Deposit Guarantee Fund	50,392	45,328
Master Bond Fund	2,289	2,262
	<u>52,681</u>	<u>47,590</u>
	<u>\$ 64,208</u>	<u>\$ 59,059</u>

The accompanying notes and schedules
are part of these financial statements.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION
STATEMENTS OF INCOME AND EQUITY
FOR THE YEAR ENDED DECEMBER 31, 1996
(thousands of dollars)

	1996		1995
	Budget	Actual	Actual
Deposit Guarantee Fund			
Revenue:			
Interest	\$ 3,039	\$ 4,202	\$ 3,617
Deposit guarantee assessments	7,301	7,816	7,313
Recovery of special assistance (Note 6)	86	67	88
	<u>10,426</u>	<u>12,085</u>	<u>11,018</u>
Expense:			
Interest and bank charges	36	26	33
Provision for (recovery of) financial assistance (Note 8)	1,321	(26)	1,351
Special contribution (Note 5)	4,396	4,652	4,315
Administration (Schedule 1)	3,044	2,369	2,906
	<u>8,797</u>	<u>7,021</u>	<u>8,605</u>
Net income for the year	1,629	5,064	2,413
Equity at beginning of year	45,050	45,328	42,915
Equity at end of year	<u>\$ 46,679</u>	<u>\$ 50,392</u>	<u>\$ 45,328</u>
Master Bond Fund			
Revenue:			
Assessments	\$ 750	\$ 581	\$ 798
Interest	149	143	175
	<u>899</u>	<u>724</u>	<u>973</u>
Expense:			
Bond premium	530	490	525
Administration	180	175	180
Claims	250	32	(2)
	<u>960</u>	<u>697</u>	<u>703</u>
Net income for the year	(61)	27	270
Equity at beginning of year	2,127	2,262	1,992
Equity at end of year	<u>\$ 2,066</u>	<u>\$ 2,289</u>	<u>\$ 2,262</u>

CREDIT UNION DEPOSIT GUARANTEE CORPORATION
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1996
(thousands of dollars)

	1996		1995
	Budget	Actual	Actual
Operating activities:			
Net income for the year:			
Deposit Guarantee Fund	\$ 1,629	\$ 5,064	\$ 2,413
Master Bond Fund	(61)	27	270
Items not involving cash:			
Amortization	77	46	57
Loss (gain) on disposal of capital assets	-	(1)	9
Amortization of deferred items	(198)	(240)	(238)
	<u>1,447</u>	<u>4,896</u>	<u>2,511</u>
Changes in non-cash balances relating to operating activities:			
Accrual for financial assistance	1,300	(17)	1,500
Other assets	-	45	-
Loans and accrued interest, net of provisions	240	173	228
Due to S C Financial Ltd.:			
Special contribution	169	337	260
Recovery of special assistance	(1)	19	(5)
Amounts due from credit unions	57	129	(137)
Payables and deferred revenue	168	(41)	(21)
	<u>1,933</u>	<u>645</u>	<u>1,825</u>
Operating investment activities:			
Investment in marketable securities and accrued interest	(3,309)	(3,845)	(2,954)
Cash provided by (used in) operating activities	<u>71</u>	<u>1,696</u>	<u>1,382</u>
Capital investment activities:			
Purchase of capital assets	(78)	(30)	(45)
Proceeds on disposal of capital assets	7	5	6
Cash used in capital investment activities	<u>(71)</u>	<u>(25)</u>	<u>(39)</u>
Increase (decrease) in cash	-	1,671	1,343
Cash, beginning of year	200	1,566	223
Cash, end of year	<u>\$ 200</u>	<u>\$ 3,237</u>	<u>\$ 1,566</u>

CREDIT UNION DEPOSIT GUARANTEE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1996

Note 1 Nature of Operations

The Credit Union Deposit Guarantee Corporation (the Corporation), operating under the authority of the Credit Union Act, Chapter C-31.1, Statutes of Alberta, 1989, as amended, guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The Credit Union Act provides that the Province of Alberta (Province) will ensure that this obligation of the Corporation is carried out. As at December 31, 1996, credit unions in Alberta held deposits totalling \$4,211,245,000. Supervised credit unions receive assistance, support and direction in planning, policy and operational matters from the Corporation.

Under the Income Tax Act, the Corporation qualifies as a deposit insurance corporation.

In 1986, S C Financial Ltd. was incorporated under the Alberta Business Corporation Act for the purpose of providing \$335,000,000 of deficit financing assistance to credit unions under supervision. All of the outstanding shares are held by the Corporation (Notes 2(b) and 5). Although the Corporation guarantees the interest on the S C Financial Ltd. debentures issued in exchange for Stabilization Preferred Shares of the credit unions, the interest is funded by the Province pursuant to its indemnification. Accordingly, the obligation of the Corporation pursuant to its guarantee is not reflected in these financial statements.

Note 2 Summary of Significant Accounting Policies

(a) Basis of Financial Statement Presentation

These financial statements reflect separate funds: a Deposit Guarantee Fund and a Master Bond Fund.

The Deposit Guarantee Fund enables the Corporation to guarantee the repayment of all deposits with credit unions, its primary objective. The Deposit Guarantee Fund's statement of income includes assessments received from credit unions, assistance payments recorded on behalf of credit unions, as well as all other revenues and expenses related to the primary objective.

The Master Bond Fund provides insurance coverage to credit unions under a policy administered by the Corporation. A credit union may claim a maximum of \$100,000 for directors liability claims and \$85,000 for other claims, less its deductible, which is payable out of the Master Bond Fund; a reinsurance policy insures the amount of the claim that exceeds \$100,000 or \$85,000, respectively. The Master Bond Fund's statement of income includes insurance assessments received from credit unions, interest income, premiums paid to the bonding company, administration fee, and claims.

The Corporation may use all of its assets to support its primary objective.

(b) Non-consolidation of S C Financial Ltd.

The financial statements of the Corporation's wholly owned company, S C Financial Ltd., have not been consolidated with these financial statements since increases or decreases in the equity of S C Financial Ltd. do not accrue to the Corporation.

(c) Investments

Investments are stated at cost, with any discount or premium amortized on a straight-line basis over the life of the investments. Carrying values of all investments are written down when there is a decline in value that is other than temporary.

(d) Loans Receivable

Loans acquired to assist with mergers of credit unions are recorded at estimated net realizable value. The loans are purchased from credit unions at the principal amount outstanding less an allowance for loan impairment. Annually, management reviews the adequacy of the allowance for loan impairment on a loan by loan basis and adjusts the allowance to an amount considered adequate to provide for expected loan losses.

Interest revenue is recorded on the accrual basis until the loan is classified as impaired. At that time, any accrued interest is reversed. An impaired loan is considered to be any loan where scheduled payments are greater than 60 days in arrears or less than 60 days in arrears and there is reasonable doubt as to the ultimate collectibility of the outstanding principal or interest.

(e) Capital Assets

The following rates are designed to amortize the cost of capital assets over their estimated useful lives:

Furniture and equipment	5 year straight-line
Automotive	30% declining-balance
Computer equipment	30% declining-balance
Computer software	1 year straight-line
Leasehold improvements	straight-line over lease term

(f) Insurance Claims

The Corporation estimates and accrues the Master Bond Fund's share of losses from any reported claims. It makes an additional accrual of the estimated losses from unreported claims based on the last three years' average actual loss experience.

(g) Provision for Financial Assistance

The Corporation recognizes financial assistance to specific credit unions as an expense when the need for assistance becomes likely and it can reasonably estimate the amount.

Additionally, an accrual for financial assistance is established by assessing the aggregate risk in the credit union system based on existing capital available in individual credit unions, current market and economic conditions, the likelihood of losses and the application of historic loss experience. It reflects management's best estimate of the losses arising from the inherent risk in the credit union system. Future economic conditions are not predictable with certainty and actual losses will vary from management's estimate.

Note 3 Investments

	Maturities				1996		1995
	Within 1 Year	Over 1 to 5 Years	Over 5 to 7 Years	Over 7 to 10 Years	Total Book Value	Estimated Market Value	Total Book Value
	(thousands of dollars)						
Securities issued or guaranteed by:							
Canada	\$6,867	\$19,737	\$ -	\$20,205	\$46,809	\$48,159	\$35,491
Provinces	-	11,431	-	-	11,431	11,827	9,566
Notes and term deposits issued by financial institutions	-	-	-	-	-	-	9,406
	<u>6,867</u>	<u>31,168</u>	<u>-</u>	<u>20,205</u>	<u>58,240</u>	<u>59,986</u>	<u>54,463</u>
Shares of Credit Union Central Alberta Ltd.	-	-	-	100 ⁽¹⁾	100	100	100
Shares of Co-operative Trust Company of Canada	-	-	-	15 ⁽¹⁾	15	15	198
Total	<u>\$6,867</u>	<u>\$31,168</u>	<u>\$ -</u>	<u>\$20,320</u>	<u>\$58,355</u>	<u>\$60,101</u>	<u>\$54,761</u>
Effective book yield	<u>5.96%</u>	<u>6.45%</u>	<u>-</u>	<u>6.70%</u>	<u>6.48%</u>		<u>7.21%</u>

⁽¹⁾ These securities have no specific maturity

Note 4 Capital Assets

	1996	1995
	(thousands of dollars)	
Furniture and equipment	\$ 377	\$ 408
Automotive	-	23
Computer equipment	269	257
Computer software	29	26
Leasehold improvements	<u>63</u>	<u>63</u>
	<u>738</u>	<u>777</u>
Less: Accumulated amortization	<u>617</u>	<u>636</u>
Net book value	<u>\$ 121</u>	<u>\$ 141</u>

Note 5 Amounts Due to and Investment in S C Financial Ltd.

	1996	1995
	(thousands of dollars)	
S C Financial Ltd.		
Special contribution	\$ 4,652	\$ 4,315
Advances	<u>(21)</u>	<u>(40)</u>
	<u>4,631</u>	<u>4,275</u>
Shares	<u>(1)</u>	<u>(1)</u>
	<u>\$ 4,630</u>	<u>\$ 4,274</u>

The Credit Union Restructuring Agreement requires the Corporation to make an annual special contribution equal to 0.11% of credit union deposits and borrowings to S C Financial Ltd., as directed by the Province, for the years 1990 through 2010.

Note 6 Special Assistance to Credit Unions

In 1989, the Corporation provided deficit funding assistance to supervised credit unions totalling \$12,524,000. It may recover portions of this funding based on a percentage of the credit unions' annual net income. The credit unions repaid \$67,000 during the year and \$2,340,000 to date.

Note 7 Commitments and Contingencies

- (a) As part of an amalgamation arrangement between two credit unions, the Corporation is required to provide financial assistance in an amount not to exceed \$1,357,000. An amount will be paid annually based on 50% of the annual net income of the credit union. These payments do not commence until after the amalgamated credit union redeems Stabilization Preferred Shares in the amount of \$480,000. It is not possible at this time to determine the amount of the liability that may result from the commitment by the Corporation to make the payments.

- (b) The Corporation is committed to a non-cancellable operating lease for business premises totalling \$756,000. The following amounts represent minimum payments over the next five years:

1997	\$176,000
1998	179,000
1999	183,000
2000	186,000
2001	32,000

Note 8 Provision for (Recovery of) Financial Assistance

To fulfill the mandate described in Note 1, the Corporation assists credit unions experiencing financial difficulties when and as required. The Corporation monitors certain other credit unions experiencing financial difficulty and has a contingent responsibility to provide further financial assistance, the amount of which, if any, is undeterminable at this time.

	1996		1995
	Financial Assistance Payable	Accrual for Financial Assistance	Total
		Total	Total
		(thousands of dollars)	
Balance, beginning of year	\$ 17	\$ 6,100	\$ 6,117
Provision for loss	-	-	-
(Paid) during year	(17)	-	(17)
Balance, end of year	<u>\$ -</u>	<u>\$ 6,100</u>	<u>\$ 6,100</u>
Provision for loss	\$ -	\$ -	\$ -
Recoveries	(26)	-	(26)
Provision for (recovery of) financial assistance	<u>\$ (26)</u>	<u>\$ -</u>	<u>\$ (26)</u>
			<u>\$ 1,351</u>

Note 9 Income Taxes

The Corporation's 1996 tax provision amounting to \$508,000 was reduced to nil by the application of prior years' losses carried forward and claiming capital cost allowance.

At December 31, 1996 the Corporation had losses for tax purposes remaining of nil and tax values of capital assets in excess of related book values of approximately \$1,071,000. The tax benefit of the excess of tax values is not reflected in these financial statements.

Note 10 1996 Budget

The 1996 budget was approved by the Board of Directors on September 28, 1995.

Note 11 Comparative Figures

The 1995 figures have been restated where necessary to conform to 1996 presentation.

Note 12 Approval of Financial Statements

The Board of Directors has approved these financial statements.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION
 SCHEDULE OF ADMINISTRATION EXPENSES
 FOR THE YEAR ENDED DECEMBER 31, 1996
 (thousands of dollars)

	1996		1995
	Budget	Actual	Actual
Deposit Guarantee Fund			
Salaries and benefits (Schedule 2)	\$ 2,249	\$ 1,850	\$ 2,229
Rental charges	176	174	270
Board and committee fees (Schedule 2)	129	97	115
Board and committee expenses	19	10	14
Staff travel	260	138	167
Office	114	89	98
Amortization	77	46	57
Professional fees	76	62	41
Data processing	30	17	23
Other	94	61	72
	<u>3,224</u>	<u>2,544</u>	<u>3,086</u>
Allocation to Master Bond Fund	(180)	(175)	(180)
	<u>\$ 3,044</u>	<u>\$ 2,369</u>	<u>\$ 2,906</u>

CREDIT UNION DEPOSIT GUARANTEE CORPORATION
SCHEDULE OF SALARIES AND BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 1996
(thousands of dollars)

Position or Group	1996				1995	
	Number of Individuals	Salary ⁽¹⁾	Benefits ⁽²⁾	Total	Number of Individuals	Total
Chairman ⁽⁵⁾	1	\$ 48	\$ -	\$ 48	1	\$ 53
Board Members ⁽⁵⁾	6	44	-	44	6	56
G.S.T.		5	-	5		6
Total fees	<u>7</u>	<u>\$ 97</u>	<u>\$ -</u>	<u>\$ 97</u>	<u>7</u>	<u>\$ 115</u>
Chief Executive Officer ⁽⁴⁾	1	\$ 120	\$ 14	\$ 134	1	\$ 133
Senior management:						
Chief Financial Officer ⁽⁴⁾	1	84	16	100	1	98
Senior Manager, Operations	1	67	10	77	1	74
Senior Manager, Credit	1	70	14	84	1	79
Senior Manager, Credit	1	58	7	65	1	79
Other managers (average 1996 \$64, 1995 \$68)	10	562	77	639	10	686
Other full-time staff (average 1996 \$40, 1995 \$40)	23	784	137	921	27	1,075
Part-time and casual staff	2	44	5	49	2	59
	<u>40</u> ⁽³⁾	<u>\$ 1,789</u>	<u>\$ 280</u>	<u>2,069</u>	<u>44</u> ⁽³⁾	<u>2,283</u>
Accruals not specifically allocated, net of deduction for total professional memberships, automobile allowance and tuition included in benefits above				(219)		(54)
Total salaries and benefits expense				<u>\$ 1,850</u>		<u>\$ 2,229</u>

⁽¹⁾ In accordance with the directive of the Province of Alberta Treasury Board pursuant to the Financial Administration Act (Alberta). Salaries or fees include regular base pay and overtime or director fees.

⁽²⁾ Benefits include contributions for Canada Pension Plan, Unemployment Insurance, Group Registered Retirement Savings Plan, Group Life Insurance, dental coverage, medical benefits, staff fund, automobile allowance, professional memberships, tuition and vacation payouts.

⁽³⁾ Represents full-time equivalent for the year.

⁽⁴⁾ For 1996, the benefits figure includes an automobile allowance which replaced the previously provided automobile.

⁽⁵⁾ The Chairman and Board Members are part-time positions. The Deputy Provincial Treasurer is a Board Member but received no remuneration from the Corporation.

N.A. PROPERTIES (1994) LTD.
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1997

Auditor's Report
Consolidated Balance Sheet
Consolidated Statement of Operations and Deficit
Consolidated Statement of Changes in Financial Position
Notes to the Consolidated Financial Statements

AUDITOR'S REPORT

To the Shareholder of N.A. Properties (1994) Ltd.

I have audited the consolidated balance sheet of N.A. Properties (1994) Ltd. as at March 31, 1997 and the consolidated statements of operations and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1997, and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
May 2, 1997

N.A. PROPERTIES (1994) LTD.
CONSOLIDATED BALANCE SHEET
AS AT MARCH 31, 1997

	1997	1996
ASSETS		
Cash	\$ 34,000	\$ 91,000
Accounts receivable	539,000	461,000
Mortgages and loan (Note 4)	3,395,000	8,517,000
Real estate properties (Note 5)	<u>2,006,000</u>	<u>6,359,000</u>
	5,974,000	15,428,000
Investment in Defeasance Fund (Note 6)	<u>95,409,000</u>	<u>86,195,000</u>
	<u><u>\$ 101,383,000</u></u>	<u><u>\$ 101,623,000</u></u>
LIABILITIES		
Bank indebtedness (Note 7)	\$ 8,586,000	\$ 23,700,000
Obligation under indemnity	2,345,000	-
Accounts payable	<u>282,000</u>	<u>502,000</u>
	11,213,000	24,202,000
Present value of future obligations (Defeasance of deficit financing) (Note 6)	<u>95,409,000</u>	<u>86,195,000</u>
	<u>106,622,000</u>	<u>110,397,000</u>
Contingencies and commitments (Note 8)		
SHAREHOLDER'S EQUITY (DEFICIENCY)		
Share capital (Note 9)	5,769,000	5,769,000
Deficit	<u>(11,008,000)</u>	<u>(14,543,000)</u>
	<u>(5,239,000)</u>	<u>(8,774,000)</u>
	<u><u>\$ 101,383,000</u></u>	<u><u>\$ 101,623,000</u></u>

On behalf of the Board:

Peter McNeil
Director

Stan Bebenek
Director

The accompanying notes are part of
these consolidated financial statements.

N.A. PROPERTIES (1994) LTD.
CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
FOR THE YEAR ENDED MARCH 31, 1997

	1997		1996
	Budget (Note 13)	Actual	Actual
Revenue			
Real estate properties sold	\$ 7,075,000	\$ 5,218,000	\$ 7,242,000
Rental	387,000	501,000	3,193,000
Interest and other	277,000	585,000	814,000
	<u>7,739,000</u>	<u>6,304,000</u>	<u>11,249,000</u>
Expenses			
Cost of real estate properties sold	7,028,000	5,020,000	9,773,000
Rental operating expense	1,876,000	1,609,000	5,229,000
General and administrative	293,000	296,000	319,000
	<u>9,197,000</u>	<u>6,925,000</u>	<u>15,321,000</u>
Operating loss before other items	1,458,000	621,000	4,072,000
Interest expense	894,000	702,000	2,331,000
Loss before provision for impairment in value of assets	2,352,000	1,323,000	6,403,000
Provision for impairment in value of assets (Note 10)	500,000	3,916,000	2,371,000
Loss for the year	<u>\$ 2,852,000</u>	<u>5,239,000</u>	<u>8,774,000</u>
Deficit, beginning of year		(14,543,000)	(15,852,000)
Receipt from Province of Alberta on indemnity (Note 2)		8,774,000	10,083,000
Deficit, end of year		<u>\$ (11,008,000)</u>	<u>\$ (14,543,000)</u>

N.A. PROPERTIES (1994) LTD.
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
Net inflow (outflow) of cash related to the following activities:		
Operating		
Loss for the year	\$ (5,239,000)	\$ (8,774,000)
Items not affecting cash:		
Provision for impairment in value of assets and obligations	3,916,000	2,371,000
	(1,323,000)	(6,403,000)
Costs recovered from sale of real estate properties	4,353,000	9,115,000
Mortgages acquired under agreements	-	(2,457,000)
Real estate acquisition and development costs	-	(2,250,000)
Mortgages		
Vendor take back mortgages on real estate properties sold	(2,863,000)	(2,575,000)
Principal reductions	2,690,000	290,000
Mortgages sold	3,790,000	5,467,000
Net change in non-cash balances related to operations	(364,000)	(1,127,000)
	<u>6,283,000</u>	<u>60,000</u>
Financing		
Bank indebtedness	(15,114,000)	(10,100,000)
Receipt from Province of Alberta on indemnity (Note 2)	8,774,000	10,083,000
	<u>(6,340,000)</u>	<u>(17,000)</u>
Net increase (decrease) in cash during the year	(57,000)	43,000
Cash beginning of year	91,000	48,000
Cash end of year	<u>\$ 34,000</u>	<u>\$ 91,000</u>

N.A. PROPERTIES (1994) LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1997

Note 1 Authority

The Company was continued on March 31, 1994 as an amalgamated corporation under the Business Corporation Act, Chapter B-15, Statutes of Alberta 1981, as amended. All issued shares of the Company are owned by the Province of Alberta and accordingly the Company is exempt from income tax.

Note 2 Nature of Operations

The Company's mandate is to dispose of all real estate properties, mortgages and accounts receivable held.

The Province of Alberta has indemnified the Company for all net losses, expenses or liabilities existing or subsequently incurred by the Company in its mandate of disposing of its assets.

In partial satisfaction of the indemnity, \$8,774,000 (1996 \$10,083,000) was recovered from the Province of Alberta.

Note 3 Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles, and within the framework of the accounting policies summarized below:

Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Heritage Capital Ltd., Herco Developments Ltd., 356395 Alberta Ltd., 370831 Alberta Ltd. and Terra Losa Centre Ltd. Separate audited financial statements have not been prepared for these subsidiaries as disclosure in these financial statements is adequate.

During the year the Company dissolved Heritage Capital Ltd., Herco Development Ltd., and 370831 Alberta Ltd. as approved by Order in Council (O.C. 24/95).

Mortgages and Loan

Mortgages and loan are stated at cost, which includes amounts advanced, interest capitalized, accrued taxes and other charges, less repayments and an allowance for anticipated losses. Where a mortgage or loan bears interest at a rate below the prevailing market at the date of real estate property sale, a discount is recorded which is amortized into income over the term of the mortgage.

Real Estate Properties

Real estate properties are stated at the lower of cost and estimated market value as supported by independent external appraisals and management assessments. Development costs relating to properties are capitalized where supported by market values. The Company does not provide for amortization.

Investment in Fund for Defeasance of Deficit Financing

Investments consist of bond coupons and residuals and are stated at cost with any discount or premium amortized on the basis of the underlying yield to maturity. Carrying values of investments are written down when there is a permanent impairment in value.

Revenue Recognition

Gains or losses on the sale of real estate properties are determined as the excess or deficiency of the proceeds of disposition over the carrying value of the disposed properties. Gains are recorded in income on disposal except in instances where a significant portion of the proceeds is not received in cash. In such circumstances, gains are deferred and recorded in income when significant cash proceeds are received.

Note 4 Mortgages and Loan

Mortgages and loan are secured by commercial property in Alberta and Manitoba and earn interest at rates of prime plus 1%, 7.5% or 10% per annum. All mortgages and loan had either matured by the year end or will mature in 1997. Subsequent to the year end, a mortgage of \$2,358,000 was renewed for 5 years.

The stated value of mortgages and loan is considered equivalent to fair value.

Note 5 Real Estate Properties

	1997	1996
Commercial	\$ 2,006,000	\$ 3,981,000
Land	-	2,744,000
Single family residential	-	40,000
	<u>2,006,000</u>	<u>6,765,000</u>
Less: Estimated selling costs	<u>-</u>	<u>(406,000)</u>
	<u>\$ 2,006,000</u>	<u>\$ 6,359,000</u>

During the year, the Company entered into a sales agreement to sell 120 acres of unserviced land in Calgary, Alberta for \$2,250,000. The sale closes August 30, 1997. The Company is under an obligation to remove certain easements and liens registered on land titles to complete the sale.

Note 6 Investment in Fund for Defeasance of Deficit Financing/Present Value of Future Obligations

The Fund consists of Government of Canada and provincial bond coupons and residuals which, together with the income earned thereon, is expected to accumulate to the sum not less than \$335,000,000 on October 31, 2010. At that time, the Fund will be used to repay the principal of any outstanding debentures issued to credit unions under the terms of the Credit Union Deficit Financing Agreement dated October 31, 1986 and any excess will be paid to the Province. Credit Union Deposit Guarantee Corporation (CUDGC) will be responsible for any deficiency in the Fund.

Investments

	1997	1996
Government of Canada and Provincial bond coupons and residuals (Market value \$124,394,000, 1996 \$103,213,000)	<u>\$ 95,409,000</u>	<u>\$ 86,195,000</u>

As the income earned on these investments in the amount of \$9,214,000 (1996 \$7,895,000) does not accrue to the benefit of the Company, but rather to the benefit of the holders of the debentures and the Province, it is not included in income. Investments mature in the years 2009 and 2010 and the yield on the portfolio is approximately 9.77%.

Present Value of Future Obligations

Based on repayments of debentures by S C Financial Ltd. (SCF), a wholly-owned subsidiary of CUDGC, up to and including the Credit Unions' October 31, 1996 year end, the future obligations at October 31, 2010 would be \$311,693,000 to the credit unions and the excess would be paid to the Province. These amounts will change based on future repayments of debentures through to October 31, 2010.

Interest on these debentures is at a rate per annum equal to the lesser of 14% and prime, and is payable by SCF.

Note 7 Bank Indebtedness

	1997	1996
Demand bank loans bearing interest at a rate per annum of prime	<u>\$ 8,586,000</u>	<u>\$ 23,700,000</u>

Note 8 Contingencies and Commitments

The Company has provided indemnities of principal and interest on mortgages sold to a Canadian chartered bank. The principal and interest on these mortgages totalled \$54,671,000 at March 31, 1997 (1996 \$54,392,000). The Company's indemnities expire in part in 2001, 2002, 2003, 2016 and in full in 2017.

During the year the Company entered into transactions with a Canadian chartered bank whereby it sold mortgages at fair market value for a total consideration of \$3,790,000 (1996 \$5,467,000). For a period of one year after the sale the bank may require the Company to repurchase mortgages for any reason. After the first year, the bank must realize on the security underlying the mortgage prior to submitting a claim for a loss to the Company.

The Company has entered into a contract to receive management services. Management and collection fees were paid in the amount of \$183,000 (1996 \$348,000) and this contract expires May 31, 1997.

Note 9 Share Capital

Authorized

Unlimited number of Class "A" voting shares
 Unlimited number of Class "B" voting shares
 Unlimited number of Class "C" non-voting shares
 Unlimited number of Class "D" non-voting shares
 Unlimited number of Class "E" voting shares
 Unlimited number of Class "F" non-voting shares

		1997	1996
Issued			
1	Class "A" share	\$ 5,768,000	\$ 5,768,000
1,000	Class "B" shares	1,000	1,000
		<u>\$ 5,769,000</u>	<u>\$ 5,769,000</u>

Note 10 Provision for Impairment in Value of Assets

	1997	1996
Obligation under indemnity	\$ 2,345,000	\$ -
Mortgage provisions - net of recoveries	1,505,000	1,158,000
Account receivable	66,000	-
Commercial impairments	-	713,000
Land impairments	-	500,000
	<u>\$ 3,916,000</u>	<u>\$ 2,371,000</u>

Mortgage provisions and obligation under indemnity have been determined based on estimated value of security mortgage, repayment performance and foreclosures.

Note 11 Related Party Transactions

The Company obtained a portion of its legal services, at competitive rates, from a firm in which a director is a partner. The fees paid to this firm amounted to \$25,000 for the year ended March 31, 1997 (1996 \$147,000).

Note 12 Directors' Fees and Salaries

	1997	1996
	Number of Individuals	Total
Directors	3	\$ 6,580
President (also a Director)		-
		<u>\$ 6,580</u>
		<u>\$ 61,450</u>

On May 31, 1996, the 3 directors were replaced. The new board members are employees of the government and therefore, do not receive fees.

The Company had no employees in 1997 and 1996.

Note 13 Budget

The 1997 budget was approved by the shareholder on June 10, 1996.

NFI FINANCE, INC.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996

Auditor's Report
Consolidated Balance Sheet
Consolidated Statement of Income and Retained Earnings
Consolidated Statement of Changes in Financial Position
Notes to the Consolidated Financial Statements

AUDITOR'S REPORT

To the Shareholder of
NFI Finance, Inc.

I have audited the consolidated balance sheet of NFI Finance, Inc. as at December 31, 1996 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. These consolidated financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these consolidated financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
March 21, 1997

NFI FINANCE, INC.
CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 1996
(thousands of dollars)

	1996	1995
ASSETS		
Cash and short-term investments (Note 4)	\$ 75,343	\$ 57,638
Accounts receivable	15	-
Accrued interest	763	605
Notes receivable (Note 5)	7,653	19,218
Property held for sale	1,225	1,825
	<u>\$ 84,999</u>	<u>\$ 79,286</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 163	\$ 574
Deferred income taxes	29,447	27,987
	<u>29,610</u>	<u>28,561</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 6)	-	-
Retained earnings	54,608	49,938
Foreign currency translation adjustments (Note 7)	781	787
	<u>55,389</u>	<u>50,725</u>
	<u>\$ 84,999</u>	<u>\$ 79,286</u>

The accompanying notes are part of these consolidated financial statements.

NFI FINANCE, INC.
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1996
(thousands of dollars)

	1996		1995
	Budget	Actual	Actual
	(Note 9)		
Revenue			
Interest on cash and short-term investments	\$ 3,660	\$ 3,592	\$ 1,254
Interest on notes	1,480	1,683	6,830
Fees	420	528	1,092
Other income	356	573	258
	<u>5,916</u>	<u>6,376</u>	<u>9,434</u>
Expense			
Professional fees	811	539	1,458
Management fees	480	459	2,000
Interest	-	-	344
Other	-	35	71
	<u>1,291</u>	<u>1,033</u>	<u>3,873</u>
Net income before recoveries	4,625	5,343	5,561
Recoveries (Note 8)	1,500	795	21,282
Net income before provision for income taxes	6,125	6,138	26,843
Provision for deferred income taxes	2,223	1,468	8,709
Net income for the year	<u>\$ 3,902</u>	4,670	18,134
Retained earnings at beginning of year		49,938	31,804
Retained earnings at end of year		\$ 54,608	\$ 49,938

NFI FINANCE, INC.
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1996
(thousands of dollars)

	1996	1995
Operating activities		
Net income for the year	\$ 4,670	\$ 18,134
Write down of property held for sale	-	707
Deferred income taxes	1,468	8,709
Other non-cash items	(598)	(2,952)
	<u>5,540</u>	<u>24,598</u>
Investing activities		
Collection of notes receivable	11,565	66,972
Disposal of property held for sale	600	-
	<u>12,165</u>	<u>66,972</u>
Financing activities		
Decrease in bank indebtedness	-	(33,245)
Reduction of agreement payable	-	-
	<u>-</u>	<u>(33,245)</u>
Increase in cash for the year	17,705	58,325
Cash and short-term investments at beginning of year	57,638	(687)
Cash and short-term investments at end of year	<u>\$ 75,343</u>	<u>\$ 57,638</u>

NFI FINANCE, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996

Note 1 Authority

NFI Finance, Inc. and its wholly owned subsidiaries NovAtel Finance, Inc., Systems Finance Inc., and Cellular Finance Inc. were incorporated under the laws of the State of Delaware, United States of America. The companies are ultimately wholly owned by the Province of Alberta through the Alberta Government Telephones Commission (the Commission) and accordingly operations in Canada are exempt from Canadian income taxes. The companies are subject to domestic income taxes in the United States of America.

Note 2 Nature of Operations

By sale agreements effective May 29, 1992, NovAtel Communications Ltd. (NovAtel), a wholly owned subsidiary of the Commission, was reorganized and sold. As part of the reorganization, NFI Finance, Inc. a wholly owned subsidiary of the Commission, acquired all outstanding shares of NovAtel Finance, Inc., Systems Finance, Inc. and Cellular Finance Inc. from NovAtel. The purpose of the reorganization was to facilitate the management and orderly disposition of the assets.

Management plans to complete disposition of remaining notes receivable and the property held for sale by March 31, 1998 or as soon thereafter as is practicable. Subsequent to the disposal of these assets, the company will be wound up and any remaining cash will be transferred to the Commission.

Note 3 Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. The significant accounting policies are as follows:

(a) Basis of Consolidation and Combination

The consolidated financial statements include the accounts of NFI Finance, Inc. and its wholly owned subsidiaries, NovAtel Finance, Inc., Systems Finance, Inc. and Cellular Finance Inc.

(b) Notes receivable

Notes receivable are stated at cost, which includes principal amounts outstanding, less provisions for losses on notes. Interest on notes is recognized as income on the accrual basis unless the notes have been classified as non-performing.

All notes which have reached 90 days in arrears or for which, in management's judgement, reasonable doubt exists as to the ultimate collectibility of principal or interest, are classified as non-performing and all unpaid interest income is reversed. Thereafter revenue is taken into income only as collected. Non-performing notes are stated at the lower of cost and estimated net realizable value.

Individual non-performing notes are reviewed regularly and if, in management's judgement, full recovery of principal is not expected, a specific provision for estimated losses is recorded. In addition, based on management's judgement, a general provision for loss is recorded to recognize unforeseeable losses in the note portfolio.

(c) Deferred income taxes

Deferred income taxes are provided for all significant timing differences between the recognition of income and expenses for financial statement and income tax purposes.

(d) Property held for sale

Property held for sale, which consists of land and commercial properties, is stated at the lower of cost and estimated net realizable value.

(e) Foreign currency translation

Commencing January 1, 1993, the foreign operations have been accounted for as self-sustaining operations. The assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the balance sheet date. Income and expenses are translated at average exchange rates prevailing during the year. Foreign currency translation adjustments are deferred and included in a separate component of the shareholder's equity described as "Foreign Currency Translation Adjustments."

Note 4 Cash and Short-term Investments

	1996		1995	
	US\$	CDN\$	US\$	CDN\$
	(thousands of dollars)			
Bank deposits	\$ 941	\$ 1,289	\$ 222	\$ 303
CCITF account	32,377	44,162	22,175	30,279
Short-term investments	21,825	29,892	19,819	27,056
	<u>\$ 55,143</u>	<u>\$ 75,343</u>	<u>\$ 42,216</u>	<u>\$ 57,638</u>

The Consolidated Cash Investment Trust Fund (CCITF) is a demand account managed by Alberta Treasury with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is composed of high quality short-term and mid-term fixed income securities with a maximum term to maturity of five years.

Short-term investments is comprised of 90 day fixed rate US\$ term deposits issued by the Province of Alberta. These term deposits are reinvested as they mature. Due to the short-term nature of these investments, the stated book value approximates fair value.

Note 5 Notes Receivable

	1996		1995	
	US \$	CDN \$	US \$	CDN \$
	(thousands of dollars)			
Performing	\$ 7,439	\$ 10,188	\$ 16,756	\$ 22,875
Non-performing	981	1,344	1,102	1,505
	8,420	11,532	17,858	24,380
Provision for losses on notes	(2,832)	(3,879)	(3,781)	(5,162)
	<u>\$ 5,588</u>	<u>\$ 7,653</u>	<u>\$ 14,077</u>	<u>\$ 19,218</u>

Notes receivable represent amounts loaned under Loan and Security Agreements with companies holding cellular system licences in the United States to finance the acquisition of cellular system equipment, to finance expansion of operations and to meet working capital requirements.

The notes bear interest primarily at US prime plus 2%, are repayable in US \$ commencing in the third year of their seven year term, and are secured by first charges on the licence holders' equipment and all other assets including, to the extent permitted by law, the licence, and a pledge of their capital stock or partnership interests.

Note 6 Capital Stock

	1996	1995
Authorized - 1,000 common shares of no par value		
Issued - 101 common shares (101 shares 1995)	<u>\$ 2</u>	<u>\$ 2</u>

Note 7 Foreign Currency Translation Adjustments

	<u>1996</u>	<u>1995</u>
	(thousands of dollars)	
Balance at beginning of year	\$ 787	\$ 1,264
Translation adjustments for the year arising from change in foreign exchange rates	(6)	(477)
Balance at end of year	<u>\$ 781</u>	<u>\$ 787</u>

Note 8 Recoveries

	<u>1996</u>	<u>1995</u>
	(thousands of dollars)	
Recovery of provision for losses on notes	\$ 795	\$ 21,989
Write down of property held for sale	-	(707)
Total	<u>\$ 795</u>	<u>\$ 21,282</u>

Note 9 Budget

The 1996 budget was approved by the Province of Alberta in July, 1996.

Note 10 Salaries and Benefits

The company did not pay any salaries or benefits to its officers and sole director in 1996 and 1995.

Note 11 Approval of Financial Statements

These financial statements were approved by the Commission.

S C FINANCIAL LTD.
FINANCIAL STATEMENTS
DECEMBER 31, 1996

Auditor's Report
Balance Sheet
Statement of Income
Notes to the Financial Statements

AUDITOR'S REPORT

The Shareholder of
S C Financial Ltd.

I have audited the balance sheet of S C Financial Ltd. as at December 31, 1996 and the statement of income for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
March 3, 1997

S C FINANCIAL LTD.
BALANCE SHEET
DECEMBER 31, 1996
(thousands of dollars)

	1996	1995
ASSETS		
Cash	\$ 1	\$ 1
Stabilization Preferred Shares (Note 3)	<u>-</u>	<u>-</u>
	<u>\$ 1</u>	<u>\$ 1</u>
SHAREHOLDER'S EQUITY		
Share Capital		
Authorized - Unlimited number of Class A shares		
Issued - 10 Class A shares	<u>\$ 1</u>	<u>\$ 1</u>
	<u>\$ 1</u>	<u>\$ 1</u>

The accompanying notes are part
of these financial statements.

Signed on behalf of the Board

E. A. Christensen
Director

J. Laitner
Director

S C FINANCIAL LTD.
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1996
(thousands of dollars)

	1996	1995
	Budget	Actual
Revenue:		
Recovery on indemnity from the Province of Alberta (Note 3)	\$ 20,713	\$ 15,551
Special contribution from Credit Union Deposit Guarantee Corporation (Note 1)	<u>4,396</u>	<u>4,652</u>
	25,109	27,131
Expense:		
Interest on debentures (Note 3)	<u>25,109</u>	<u>20,203</u>
Net income for the year	<u>\$ -</u>	<u>\$ -</u>

S C FINANCIAL LTD.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1996

Note 1 Nature of Operations

S C Financial Ltd. (the Company) was incorporated on May 29, 1986 under the Alberta Business Corporations Act, as a wholly-owned company of the Credit Union Deposit Guarantee Corporation (CUDGC), a Provincial Corporation. The Company is a deposit insurance corporation by virtue of it being a wholly-owned company of a deposit insurance corporation. Accordingly, it is treated as such for income tax purposes.

Pursuant to the Credit Union Deficit Financing Agreement, the Company provided deficit financing assistance to supervised credit unions. In 1986, Stabilization Preferred Shares Series B were issued by credit unions to the Company in exchange for debentures totalling \$335,000,000. CUDGC provided funds to the Company to purchase investments which will accumulate to \$335,000,000 at October 31, 2010 in order to repay debentures outstanding and the Province of Alberta (Province) at that date (Note 3). Pursuant to an agreement effective January 1, 1992, the Company transferred the assets of the fund to N.A. Properties (1994) Ltd. (wholly-owned by the Province). In exchange, N.A. Properties (1994) Ltd. assumed the Company's obligation to repay \$335,000,000.

In 1989, CUDGC contributed \$12,524,000 to the Company to provide cash deficit financing assistance to supervised credit unions in exchange for Stabilization Preferred Share Series B.

The Credit Union Restructuring Agreement requires CUDGC to make an annual special contribution equal to 0.11% of credit union deposits and borrowings (loans payable) to the Company as directed by the Province, each year through to 2010. For the 1996 fiscal year, the special contribution was \$4,652,000 (1995 \$4,315,000).

Note 2 Financial Statement Presentation

A statement of changes in financial position is not provided as disclosure in these financial statements is considered to be adequate.

Note 3 Stabilization Preferred Shares

The Stabilization Preferred Shares Series B have no value to the Company itself because any redemptions thereon flow through the Company and accrue to the benefit of the Province or CUDGC. Therefore, these shares do not appear as an asset with value on the balance sheet of the Company.

The Stabilization Preferred Shares are non-voting and are not entitled to dividends. They are redeemable at the option of the credit unions for the issue price, or otherwise shall be redeemed in an amount equal to 25% through 1999 inclusive, and 50% thereafter, of the annual net income of the credit unions. Any funds received in respect of redemption of the Stabilization Preferred Shares are used on a pro rata basis to repay the debentures and/or CUDGC. The amount of debentures outstanding after the 1996 redemptions is \$311,693,404. The future obligation of N.A. Properties (1994) Ltd. (see Note 1) would be \$311,693,404 to the credit unions and \$23,306,596 to the Province at October 31, 2010. These amounts will change based on annual redemptions through to October 31, 2010. The present value of this future obligation is \$93,114,000 which is supported by assets totalling \$93,114,000 held by N.A. Properties (1994) Ltd.

On a quarterly basis, the Company pays interest on the debentures at the lesser of 14% or prime. CUDGC, with an indemnity from the Province, guarantees payment of the interest.

Note 4 Due to Related Parties

Transactions with related parties are undertaken to meet funding commitments under the Credit Union Deficit Financing Agreement and Credit Union Restructuring Agreement. Balances have been disclosed on a net basis in these financial statements to reflect the flow-through nature of the transactions.

	1996	1995
	(thousands of dollars)	(thousands of dollars)
Redemption of Stabilization Preferred Shares:		
Due from credit unions	\$ 474	\$ 1,310
Due to credit unions on repayment of debentures	(453)	(1,269)
Due to Credit Union Deposit Guarantee Corporation	(21)	(41)
	<u>-</u>	<u>-</u>
Interest on debentures:		
Due to credit unions	(2,604)	(4,108)
Due (to) from Province to fund interest	(2,048)	(207)
Due from Credit Union Deposit Guarantee Corporation - special contribution	4,652	4,315
	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>

Note 5 1996 Budget

The 1996 budget was approved by the Board of Directors on September 27, 1995.

TREASURY BRANCHES DEPOSITS FUND
FINANCIAL STATEMENTS
MARCH 31, 1997

Auditor's Report
Statement of Assets and Liabilities
Statement of Income
Statement of Equity
Statement of Changes in Financial Position
Notes to the Financial Statements

AUDITOR'S REPORT

To the Provincial Treasurer

I have audited the statement of assets and liabilities of the Treasury Branches Deposits Fund as at March 31, 1997, and the statements of income, equity and changes in financial position for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
May 28, 1997

TREASURY BRANCHES DEPOSITS FUND
STATEMENT OF ASSETS AND LIABILITIES
AS AT MARCH 31, 1997
(\$ in thousands)

	1997	1996
ASSETS		
Cash resources		
Cash and deposits with Bank of Canada	\$ 44,381	\$ 59,118
Deposits with other banks	484,772	479,739
Cheques and other items in transit, net	-	12,448
	<u>529,153</u>	<u>551,305</u>
Securities (Note 3)		
Issued or guaranteed by Canada	85,782	102,082
Other securities	381,380	301,243
	<u>467,162</u>	<u>403,325</u>
Loans net of allowance for credit impairment (Notes 4 and 5)		
Mortgage loans	2,644,306	2,470,499
Consumer loans	1,043,132	1,079,094
Other loans	3,612,929	4,123,759
	<u>7,300,367</u>	<u>7,673,352</u>
Other		
Land, buildings and equipment (Note 6 and 17)	58,538	66,655
Other assets (Note 7)	111,620	123,930
	<u>170,158</u>	<u>190,585</u>
	<u>\$ 8,466,840</u>	<u>\$ 8,818,567</u>
LIABILITIES		
Deposits (Note 8)		
Payable on demand	\$ 1,391,466	\$ 1,250,334
Payable after notice	1,491,608	1,413,421
Payable on a fixed date	5,525,119	6,014,875
	<u>8,408,193</u>	<u>8,678,630</u>
Other		
Cheques and other items in transit, net	15,134	-
Other liabilities (Notes 9, 10 and 17)	195,491	167,585
	<u>210,625</u>	<u>167,585</u>
Equity (deficit)	(151,978)	(27,648)
	<u>\$ 8,466,840</u>	<u>\$ 8,818,567</u>

The accompanying notes are part
of these financial statements.

TREASURY BRANCHES DEPOSITS FUND
STATEMENT OF INCOME
FOR THE YEAR ENDED MARCH 31, 1997
(\$ in thousands)

	1997	1996
Interest income		
Income from loans	\$ 558,965	\$ 686,574
Income from securities	16,261	30,521
Income from deposits with banks	17,735	23,438
	<u>592,961</u>	<u>740,533</u>
Interest expense		
Interest on deposits	352,983	505,235
Net interest income	239,978	235,298
Provision for credit impairment (Note 5)	198,343	64,041
Net interest income after provision for credit impairment	41,635	171,257
Other income	66,070	70,181
Net interest and other income	<u>107,705</u>	<u>241,438</u>
Non-interest expense		
Salaries and staff benefits (Notes 10 and 11)	111,529	118,126
Premises and equipment expenses, including amortization	47,574	45,355
Restructuring costs (Note 17)	22,175	-
Other expenses	50,757	41,938
Total non-interest expense	<u>232,035</u>	<u>205,419</u>
Net income (loss)	<u><u>\$ (124,330)</u></u>	<u><u>\$ 36,019</u></u>

TREASURY BRANCHES DEPOSITS FUND
STATEMENT OF EQUITY
FOR THE YEAR ENDED MARCH 31, 1997
(\$ in thousands)

	1997	1996
Deficit at beginning of year	\$ 27,648	\$ 63,667
Net loss (income)	124,330	(36,019)
Deficit at end of year	<u><u>\$ 151,978</u></u>	<u><u>\$ 27,648</u></u>

TREASURY BRANCHES DEPOSITS FUND
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997
(\$ in thousands)

	1997	1996
Cash flows from operating activities		
Net (loss) income for the year	\$ (124,330)	\$ 36,019
Adjustments to determine net cash provided by operating activities		
Provision for credit impairment	198,343	64,041
Amortization	23,133	17,376
Net decrease in other assets	12,310	94,134
Net increase (decrease) in other liabilities	27,906	(92,369)
	<u>137,362</u>	<u>119,201</u>
Cash flows from financing activities		
Net increase (decrease) in deposits payable on demand	141,132	(35,363)
Net increase in deposits payable after notice	78,187	36,666
Net decrease in deposits payable on a fixed date	(489,756)	(275,999)
	<u>(270,437)</u>	<u>(274,696)</u>
Cash used in investing activities		
Net increase in non-operating deposit balances with other banks	7,939	153,937
Net increase (decrease) in securities	63,837	(202,543)
Net increase in mortgage loans	173,807	21,724
Net (decrease) increase in consumer loans	(35,734)	108,713
Net decrease in other loans	(312,715)	(233,247)
Net increase in land, buildings and equipment	15,016	11,987
	<u>(87,850)</u>	<u>(139,429)</u>
Net decrease in cash	(45,225)	(16,066)
Cash at beginning of year	78,201	94,267
Cash at end of year	<u>\$ 32,976</u>	<u>\$ 78,201</u>
Consists of		
Cash and deposits with Bank of Canada	\$ 44,381	\$ 59,118
Operating deposit balances with other banks	3,729	6,635
Cheques and other items in transit, net	(15,134)	12,448
	<u>\$ 32,976</u>	<u>\$ 78,201</u>

TREASURY BRANCHES DEPOSITS FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997

Note 1 Authority

The Treasury Branches Deposits Fund (the "Fund") operates under the authority of the Treasury Branches Act, Chapter T-7, Revised Statutes of Alberta 1980, with amendments in force as of June 12, 1996.

Note 2 Significant Accounting Policies

The financial statements are prepared by management in accordance with generally accepted accounting principles. Comparative amounts have been reclassified where necessary to conform with the current year's presentation. The significant accounting policies followed in the preparation of these financial statements are summarized below:

(a) Securities

Securities are reported at cost or amortized cost, adjusted to recognize other than temporary impairment in the underlying value. Securities are purchased with the intention to hold them to maturity, or until market conditions render alternative investments more attractive. Gains and losses on disposal of securities are included in income in the year in which they occur.

(b) Loans

Loans are stated net of any unearned income and an allowance for credit impairment. Interest income is recorded on the accrual basis for all satisfactory loans and accrued interest on loans is reported in other assets in the Statement of Assets and Liabilities.

A loan is classified as impaired when, in the opinion of management, there is reasonable doubt as to the timely collection of some portion of principal or interest. A loan where payment of interest is contractually past due 90 days is classified as impaired unless management determines there is no reasonable doubt as to the collectibility of all interest and principal.

When interest or principal is past due 180 days all loans are classified as impaired with the exception of loans which are federal or provincial government guaranteed. Credit card balances are fully provided for when a payment is 180 days arrears. When a loan is classified as impaired, recognition of interest income in accordance with the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the recorded investment in the loan.

When an impaired loan is restructured, the recorded investment in the loan is reduced by the cost of concession granted, and the reduction is recognized as a charge for loan impairment in the Statement of Income in the period. Subsequent to restructuring, interest income is recognized on the recorded investment in the loan for all performing loans.

Impaired loans are returned to performing status when there is no longer any reasonable doubt regarding the timely collection of all principal and interest, all amounts in arrears have been collected, and all charges for loan impairment have been reversed.

Loan fees are recognized in income over the appropriate lending or commitment period.

(c) Allowance for Credit Impairment

An allowance for credit impairment is maintained in an amount considered adequate to absorb credit losses. Credit losses arise primarily from loans but also from credit instruments such as loan guarantees and letters of credit. The allowance is increased by a provision for credit impairment which is charged to income and reduced by write-offs, net of recoveries.

A specific allowance on loans is established on an individual loan basis to reduce the carrying book values to estimated realizable values. Estimated realizable values are measured by discounting the expected future cash flows at the effective rate inherent in the loans. When the amounts and timing of future cash flows cannot be reliably established, estimated realizable values are measured by the observable market prices for the loans or their underlying security. In addition, a general allowance on loans is established which is prudential in nature and is required to absorb losses inherent in the loan portfolio, for which a specific allowance cannot yet be determined.

The allowance for credit impairment is deducted from the related asset category except any amounts provided to cover potential losses from loan guarantees and letters of credit which are included in other liabilities.

(d) Land, Buildings and Equipment

Land is reported at cost. Buildings, equipment and leasehold improvements are reported at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful lives of the related assets.

The maximum life limits for the various classes are as follows:

Buildings	to 20 years
Leasehold improvements	to 10 years
Computer equipment	to 5 years
Other equipment	to 10 years

Gains and losses on the disposal or write-down of capital assets are recorded in the Statement of Income in the year of disposal.

(e) Translation of Foreign Currencies

Foreign currency assets and liabilities are translated into Canadian dollars at rates prevailing at the date of the financial statements.

Foreign currency income and expenses are translated into Canadian dollars at the average rate throughout the year.

Realized and unrealized gains and losses on foreign currency transactions are included in other income in the Statement of Income. Foreign exchange positions are hedged as much as practicable by forward exchange contracts.

(f) Derivatives

The Fund enters into derivative transactions in order to manage the risks associated with its interest rate exposures and other market risks. Derivative products used by the Fund include interest rate swaps and index-linked swaps.

The net income or expense related to swap transactions is deferred and recognized over the term of the swap agreement as an adjustment to interest income or interest expense in the Statement of Income.

(g) Impact of Recently Issued Accounting Standards

In September 1995, the Canadian Institute of Chartered Accountants issued handbook Section 3860, "Financial Instruments - Disclosure and Presentation", which takes effect this year. The Fund's adoption of the new standards had no impact on its financial results, but resulted in expanded disclosure and presentation in the Notes to the Financial Statements.

Note 3 Securities

All securities held at March 31, 1997 mature within one year.

The cost or amortized cost of securities approximates the market value of securities as at March 31, 1997. Average effective yield of the securities held at March 31, 1997 was 3.48% (1996 - 5.42%).

Note 4 Loans (\$ in thousands)

Loans consist of the following:

	1997			1996
	Recorded Investment	Specific Allowance	General Allowance	Net Carrying Value
Residential mortgages	\$ 2,649,359	\$ 3,472	\$ 1,581	\$ 2,644,306
Personal financing and credit card loans	1,061,480	14,440	3,908	1,043,132
Agricultural programs	1,000,620	5,909	2,656	992,055
Independent business programs	995,132	40,400	12,818	941,914
Commercial and government loans	1,844,967	140,902	25,105	1,678,960
	<u>\$ 7,551,558</u>	<u>\$ 205,123</u>	<u>\$ 46,068</u>	<u>\$ 7,300,367</u>
				<u>\$ 7,673,352</u>

At March 31, 1997, there were no loans outstanding to Alberta Crown-controlled corporations (1996 - \$24,021).

Impaired Loans (Included in the preceding schedule.)

In previous years the general allowance was established by reference to loans which are generally in arrears, have greater than normal risk, but do not warrant a specific provision. Effective for the year ended March 31, 1997, a general provision has also been established for current loans based on an estimate of the losses present but unidentified in the current loan portfolio. The effect of this change has been applied prospectively and increased the loss in 1996/97 by \$27,228.

	1997			1996
	Recorded Investment	Specific Allowance	Net Carrying Value	Net Carrying Value
Residential mortgages	\$ 22,761	\$ 3,472	\$ 19,289	\$ 23,501
Personal financing and credit card loans	18,961	14,440	4,521	7,200
Agricultural programs	26,411	5,909	20,502	7,886
Independent business programs	66,130	40,400	25,730	14,965
Commercial and government loans	447,769	140,902	306,867	278,372
	<u>\$ 582,032</u>	<u>\$ 205,123</u>	<u>\$ 376,909</u>	<u>\$ 331,924</u>

The total recorded investment in assets acquired in satisfaction of problem loans was \$57,889 with an allowance for impairment of \$9,009, and a net realizable value of \$48,880 (1996 - \$107,730). These amounts are included in the above schedules.

The following table analyzes the Fund's loan portfolio by the contractual repricing or maturity dates, whichever are earlier. Average effective yields are based on net carrying values and contractual interest rates as at year end:

	Floating	Within 3 Months	3 Months to 1 Year	1 to 5 Years	1997 Total	1996 Total
Total loans	\$2,909,763	\$ 678,052	\$1,022,187	\$2,690,365	\$7,300,367	\$7,673,352
Average effective yield	5.99	7.04	7.37	7.97	7.01	8.33

Note 5 Allowance for Credit Impairment (\$ in thousands)

	1997	1996
Balance at beginning of year	\$ 209,582	\$ 231,938
Provision for credit impairment charged to the Statement of Income	198,343	64,041
Write-offs	(169,092)	(93,377)
Recoveries	12,358	6,980
Balance at end of year	<u>\$ 251,191</u>	<u>\$ 209,582</u>

Note 6 Land, Buildings and Equipment (\$ in thousands)

Land, buildings and equipment are summarized as follows:

	1997		1996
	Cost	Accumulated Amortization	Net Carrying Amount
Land	\$ 7,377	\$ -	\$ 7,377
Buildings	57,643	35,378	22,265
Equipment	96,354	79,386	16,968
Leasehold improvements	31,893	19,965	11,928
	<u>\$ 193,267</u>	<u>\$ 134,729</u>	<u>\$ 58,538</u>
March 31, 1996	<u>\$ 179,940</u>	<u>\$ 113,285</u>	<u>\$ 66,655</u>

Note 7 Other Assets (\$ in thousands)

Other assets are summarized as follows:

	1997	1996
Accrued interest receivable	\$ 90,267	\$ 112,144
Other items, including accounts receivable, foreign exchange contracts and prepaid items	21,353	11,786
	<u>\$ 111,620</u>	<u>\$ 123,930</u>

Note 8 Deposits (\$ in thousands)

The repayment of all deposits including accrued interest is guaranteed by the Crown in right of Alberta.

Deposits are summarized as follows:

	1997	1996
Deposits by the Province of Alberta	\$ 211,082	\$ 298,877
Deposits by others	8,197,111	8,379,753
	<u>\$ 8,408,193</u>	<u>\$ 8,678,630</u>

Deposits by the Province of Alberta include deposits for loans made under the Alberta Farm Credit Stability Program and the Alberta Small Business Term Assistance Plan in the amount of \$209,085 (1996 - \$292,438).

The following table provides an analysis of deposits by contractual repricing or maturity dates, whichever are earlier. Average effective interest rates are based on book values and contractual interest rates as at year end.

	Floating and Non-rate Sensitive	Within 3 Months	3 Months to 1 Year	1 to 5 Years	1997 Total	1996 Total
Deposits	\$2,882,957	\$2,023,073	\$1,680,723	\$1,821,440	\$8,408,193	\$8,678,630
Average effective interest rate	0.87	3.19	4.80	6.45	3.42	4.97
Average effective interest after adjusting for related derivatives	0.72	3.30	4.80	6.46	3.50	5.04

Note 9 Other Liabilities (\$ in thousands)

Other liabilities are summarized as follows:

	1997	1996
Accrued interest payable	\$ 72,323	\$ 105,616
Other items, including accounts payable, foreign exchange contracts, pension liability and accruals	123,168	61,969
	<u>\$ 195,491</u>	<u>\$ 167,585</u>

Note 10 Pension Liability (\$ in thousands)

The Fund participates with other employers in the Public Service and Management Employees Pension Plans. These plans provide pensions for the Fund's employees based on years of service and earnings.

The Fund had an unfunded pension liability for each plan as at March 31 which was estimated as follows:

	1997		1996
	Public Service Pension Plan	Management Employees Pension Plan	Total
			Total
Balance at the beginning of year	\$ 6,999	\$ 16,803	\$ 23,802
Increase (decrease) during the year	(3,053)	(2,066)	2,076
Balance at the end of year	<u>\$ 3,946</u>	<u>\$ 14,737</u>	<u>\$ 18,683</u>
			<u>\$ 23,802</u>

The total unfunded pension liability for each plan as at March 31, 1997 was determined by actuarial valuations, as at December 31, 1995 for the Public Service Pension Plan and as at December 31, 1994 for the Management Employees Pension Plan, both extrapolated to March 31, 1997. The 1996 comparative figures for both plans were based on the actuarial valuations as at December 31, 1994 extrapolated to March 31, 1996.

The actuarial valuations were determined using the projected benefit method prorated on service. Assumptions used in the valuation are based on the Pension Board's best estimate of future events. The Plans' future experiences will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses which relate to the long term are amortized over the expected average remaining service life of the employee group. Gains and losses for which there is reasonable assurance regarding their measurement and realization are recognized in income immediately.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded liability for each plan which will be funded by employers. The Fund's portion of those employers' liabilities was based on the Fund's percentage of the total pensionable payroll of all employers in each plan.

The total liability is recorded in the Statement of Assets and Liabilities under Other Liabilities. The change in the year is included in the Statement of Income under Salaries and Staff Benefits.

Note 11 Disclosure of Salaries and Benefits

	1997					1996	
	Number of Persons	Salary	Benefits and Allowances	Vacation Payouts	Total	Number of Persons	Total
Chairman of Board	1	\$ 36,800	\$ -	\$ -	\$ 36,800	-	\$ -
Board Members	14	270,040	-	-	270,040	-	-
CEO & Superintendent	1	155,814	7,663	36,914	200,391	1	118,274
Deputy Superintendent (Position abolished March 31, 1996)	-	-	-	-	-	1	133,035
Executive Vice-President, Sales Distribution	1	93,244	14,947	15,364	123,555	1	115,917
Vice-Superintendent, Administration (Position abolished January 31, 1997)	-	78,061	4,404	16,049	98,514	1	105,510
Senior Vice-President, Credit	1	92,037	12,695	8,932	113,664	1	117,992
Chief Financial Officer	1	72,408	13,119	2,775	88,302	1	87,887
Senior Vice-President, Asset Recovery (Position effective November 21, 1996)	1	30,119	7,905	-	38,024	-	-
Senior Vice-President, Policy & Strategic Planning (Position effective October 15, 1996)	1	35,879	6,917	-	42,796	-	-
Chief Inspector (Appointed to Executive position on November 1, 1996)	1	39,240	7,263	-	46,503	-	-
Other managers (Average: 1997: \$58,264 1996: \$57,980)	573	26,633,142	5,991,620	760,228	33,384,990	558	32,352,988
Other salaried staff (Average: 1997: \$28,663 1996: \$28,481)	2,688	63,391,397	13,345,405	310,668	77,047,470	2,682	76,386,147
Non-salaried staff		<u>5,721,833</u>	<u>453,244</u>	<u>-</u>	<u>6,175,077</u>		<u>5,864,968</u>
		<u>\$96,650,014</u>	<u>\$19,865,182</u>	<u>\$1,150,930</u>	<u>117,666,126</u>		<u>115,282,718</u>
Unfunded Pension Liability Adjustment (Note 10)					(5,119,000)		2,076,000
Employer costs of other benefits and accruals not specifically allocated					(1,018,342)		767,685
Total salary and staff benefit expense					<u>\$111,528,784</u>		<u>\$118,126,403</u>

Salary includes regular base pay, overtime, lump sum payments, honoraria, and any other direct cash remuneration.

Benefits and allowances consist of payments made on behalf of employees including pension, health care, dental coverage, medical benefits, group life insurance, accidental disability and dismemberment insurance, long-term disability plans, Employment Insurance and Canada Pension Plan, professional memberships and tuition. The benefits and allowances figure also includes the cost of additional benefits such as staff suggestion awards, retirement awards, awards for achievement, savings plans, relocation allowance and car allowances.

Automobiles were provided for the Superintendent, Vice-Superintendent, Executive Vice-President, Senior Vice-President, Asset Recovery, Chief Inspector and the Chief Financial Officer; no amounts are included in the benefits and allowances figures.

The number of persons represents staff at March 31. Average salaries are calculated using these figures as staff levels were consistent throughout the year.

Note 12 Related Party Transactions

In the ordinary course of business, the Fund provides normal banking services to various Province of Alberta departments and agencies on terms similar to those offered to non-related parties.

Note 13 Leases (\$ in thousands)

The Fund has obligations under long-term non-cancelable operating leases for buildings and equipment. The future minimum lease payments for each of the next five years and thereafter are:

Year ending March 31, 1998	\$ 14,003
1999	12,125
2000	8,988
2001	6,802
2002	5,261
2003 and thereafter	19,760
	<u>\$ 66,939</u>

Note 14 Contingent Liabilities (\$ in thousands)

In the normal course of business, the Fund has various outstanding contingent liabilities which include letters of credit, letters of guarantee, loan guarantees and the Fund's liability for certain items relating to unclaimed deposit balances and remittances which are not included in the Statement of Assets and Liabilities.

Guarantees and standby letters of credit represent an irrevocable obligation to make payments to a third party in the event that the customer is unable to meet its financial or performance contractual obligations. In the event of a call on such commitments, the Fund has recourse against the customers.

Contingent liabilities are summarized as follows:

	1997	1996
Guarantees	\$ 408,171	\$ 461,107
Letters of credit	10,207	13,657
Unclaimed items	4,490	3,996
	<u>\$ 422,868</u>	<u>\$ 478,760</u>

No provision for credit losses on contingent liabilities was required at March 31, 1997 or March 31, 1996.

Various actions and legal proceedings arising from the normal course of business are pending against the Fund. Management does not consider the aggregate liability, if any, of these actions and proceedings to be material.

Note 15 Off-Balance Sheet Financial Instruments (\$ in thousands)

In the normal course of business, the Fund enters into over the counter off-balance sheet interest rate swaps and index-linked swaps. The interest rate swaps are used to manage exposures to fluctuations in interest rates in the Fund's overall portfolio. The index-linked swaps which are used to manage fluctuations in any underlying index, are entered into to hedge the risk arising from specific financial instruments. The Fund only enters into these derivative instruments for its own account and does not act as an intermediary in this market.

The interest rate and index-linked swaps are not included in the Statement of Assets and Liabilities. The notional amount represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows. The notional amounts are not exchanged and therefore are not at risk. Approved counterparties and maximum notional limits are established and monitored by the management.

The notional amounts of the derivative contracts are summarized as follows:

	1997		1996
	Maturing within 1 Year	Over 1 to 5 Years	Total
Interest rate swaps	\$ 50,000	\$ 125,000	\$ 175,000
Index-linked swaps	675	89,070	89,745
	<u>\$ 50,675</u>	<u>\$ 214,070</u>	<u>\$ 264,745</u>
			<u>\$ 275,000</u>

The current replace cost and fair value of derivative contracts is summarized as follows:

	Notional Amount	Current Replacement Cost	Favourable Position	Unfavourable Position
Interest rate swaps	\$ 175,000	\$ -	\$ -	\$ 5,667
Index-linked swaps	89,745	7,839	7,839	1,616
	<u>\$ 264,745</u>	<u>\$ 7,839</u>	<u>\$ 7,839</u>	<u>\$ 7,283</u>

Fair values are determined using pricing models which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions. Fair values have been segregated between those contracts which are in a favourable position (positive fair value) and those contracts which are in an unfavourable position (negative fair value).

Current credit exposure is limited to the amount of loss that the Fund would suffer if every counterparty to which the Fund was exposed were to default at once, which is represented by the current replacement cost of all outstanding contracts in a gain position. The Fund attempts to limit its credit exposure by dealing with counterparties believed to be creditworthy.

Note 16 Estimated Fair Value of On-Balance Sheet Financial Instruments (\$ in thousands)

The amounts are designed to approximate the fair values of the Fund's financial instruments using the valuation methods and assumptions described below. Since many of the Fund's financial instruments lack an available trading market, the fair values represent estimates of the current market value of instruments, taking into account changes in market rates that have occurred since their origination. Due to the use of subjective assumptions and uncertainties, the fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The carrying value of most of the Fund's financial instruments is not adjusted to reflect changes in interest rates, as it is the Fund's intention to hold the instruments to maturity.

The estimated fair values disclosed do not reflect the value of items that are not considered financial instruments, such as capital assets or intangible assets.

Estimated fair values of on-balance sheet financial instruments are summarized as follows:

	1997			1996		
	Book Value	Fair Value	Fair Value Over (Under) Book Value	Book Value	Fair Value	Fair Value Over (Under) Book Value
Assets:						
Cash resources	\$ 529,153	\$ 529,153	\$ -	\$ 551,305	\$ 551,305	\$ -
Securities	\$ 467,162	\$ 467,162	\$ -	\$ 403,325	\$ 403,325	\$ -
Loans	\$7,300,367	\$7,377,707	\$ 77,340	\$7,673,352	\$7,763,441	\$ 90,089
Other assets	\$ 111,620	\$ 111,620	\$ -	\$ 123,930	\$ 123,930	\$ -
Liabilities:						
Deposits	\$8,408,193	\$8,424,830	\$ 16,637	\$8,678,630	\$8,718,986	\$ 40,356
Other liabilities	\$ 210,625	\$ 210,625	\$ -	\$ 167,585	\$ 167,585	\$ -

Fair Values were determined as follows:

Short-Term Financial Instruments

For items which are short-term in nature, the estimated fair value is equal to book value. These include cash resources, securities, other assets and other liabilities.

Floating Rate Financial Instruments

For floating rate financial instruments, fair value is equal to book value as the interest rates automatically reprice to market.

Fixed Rate Financial Instruments

For fixed rate loans, fair value is determined by discounting the expected future cash flows at market rates for loans with similar credit risks.

For fixed rate deposits, fair value is determined by discounting the contractual cash flows, using market interest rates currently offered for deposits with similar terms.

Note 17 Restructuring Costs (\$ in thousands)

During the year, the Fund's management initiated a major restructuring plan aimed at repositioning itself in the marketplace and improving its efficiencies. This plan was approved by the Fund's Board of Directors in November 1996.

As a result, an amount of \$22,175 representing the cost of business restructuring operations is recorded in the Statement of Assets and Liabilities as at March 31, 1997, \$16,050 is included in Other Liabilities, and \$6,125 is deducted from Land, Buildings and Equipment.

The restructuring costs recorded in the Statement of Income for the year ended March 31, 1997 under Non-interest Expenses are comprised of the following:

Rationalization of processes	\$ 13,900
Capital asset write-downs	6,125
Contract termination costs	2,150
	<u>\$ 22,175</u>

The restructuring activities are anticipated to continue through the 1998 and 1999 fiscal years; any additional future costs will be recorded as they are incurred.

473654 ALBERTA LTD.
(in liquidation)
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996

Auditor's Report
Consolidated Balance Sheet
Consolidated Statement of Liquidation Activities and Deficit
Consolidated Statement of Cash Flow
Notes to the Consolidated Financial Statements

AUDITOR'S REPORT

To the Members of
The Alberta Government Telephones Commission

I have audited the consolidated balance sheet of 473654 Alberta Ltd. as at December 31, 1996 and the consolidated statements of liquidation activities and deficit and cash flow for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting as described in Note 3 to the financial statements.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
April 17, 1997

473654 ALBERTA LTD.
(in liquidation)
CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 1996
(thousands of dollars)

	1996	1995
ASSETS		
Cash	\$ 215	\$ 359
Accounts receivable, net	1	1,654
Taxes recoverable (Note 4)	176	175
Amount recoverable - legal action (Note 5)	-	18
	<u>\$ 392</u>	<u>\$ 2,206</u>
LIABILITIES		
Bank overdraft (Note 6)	\$ 2,319	\$ 1,667
Due to the Province of Alberta (Note 7)	250,667	250,667
Accounts payable	-	989
Termination and closure cost accruals (Note 8)	1,400	1,170
	<u>254,386</u>	<u>254,493</u>
SHAREHOLDER'S DEFICIENCY		
Share capital (Note 9)	159,401	159,401
Deficit	<u>(413,395)</u>	<u>(411,688)</u>
	<u>(253,994)</u>	<u>(252,287)</u>
	<u>\$ 392</u>	<u>\$ 2,206</u>

The accompanying notes are part of
these consolidated financial statements.

473654 ALBERTA LTD.
(in liquidation)
CONSOLIDATED STATEMENT OF LIQUIDATION ACTIVITIES AND DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1996
(thousands of dollars)

	1996	1995
Gain (loss) on revaluation of balance sheet accounts:		
Accounts receivable	\$ (1,652)	\$ 37
Accounts payable	986	-
Amount recoverable - legal action	-	(50)
Termination and closure cost accruals	(940)	(1,210)
	<u>(1,606)</u>	<u>(1,223)</u>
Interest income	(11)	(55)
Interest expense	115	166
Foreign exchange loss (gain)	(3)	34
	<u>101</u>	<u>145</u>
Net loss for the year	(1,707)	(1,368)
Deficit at beginning of year	(411,688)	(410,320)
Deficit at end of year	<u>\$ (413,395)</u>	<u>\$ (411,688)</u>

473654 ALBERTA LTD.
(in liquidation)
CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED DECEMBER 31, 1996
(thousands of dollars)

	1996	1995
Cash receipts:		
Accounts receivable	\$ -	\$ 170
Tax recoveries	(1)	1
Amount recovered - legal action	18	20
Interest	10	-
	<u>27</u>	<u>191</u>
Cash disbursements:		
Termination and closure costs	710	546
Interest	116	125
Foreign exchange	(3)	45
	<u>823</u>	<u>716</u>
Increase in net cash position for the year	(796)	(525)
Net cash position at beginning of year	(1,308)	(783)
Net cash position at end of year	<u>\$ (2,104)</u>	<u>\$ (1,308)</u>
Net cash position at end of year comprises:		
Bank overdraft at end of year	\$ (2,319)	\$ (1,667)
Cash at end of year	215	359
	<u>\$ (2,104)</u>	<u>\$ (1,308)</u>

473654 ALBERTA LTD.
(in liquidation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996

Note 1 Authority

The Company was incorporated under the Business Corporations Act, Chapter B-15, Statutes of Alberta 1981, as amended. All issued and outstanding shares of the Company are owned by The Alberta Government Telephones Commission (Commission). The Commission is a Provincial corporation and, accordingly, the Company is exempt from income tax in Canada.

Note 2 Nature of Operations

Effective December 31, 1990, the Company and its wholly owned subsidiary 475342 Alberta Ltd. (475342) each acquired 50% of NovAtel Communications Ltd. (NovAtel) from TELUS Corporation. On May 25, 1992 the Company sold certain NovAtel assets to Northern Telecom Limited (Northern). On May 29, 1992, the Company sold all shares in NovAtel to Telexel Holding Limited for \$3 million and assumed certain NovAtel assets, liabilities and contingent liabilities. Since May 29, 1992, the Company and its subsidiaries have been in liquidation under the direction of a manager.

Note 3 Summary of Significant Accounting Policies

The Company is in liquidation and the consolidated financial statements have been prepared in accordance with the following principles:

(a) Basis of consolidation

These consolidated financial statements include the accounts of the wholly owned subsidiaries 475342 and NovAtel Communications Inc. (NCI), a Delaware corporation.

All significant transactions between the companies have been eliminated.

(b) Valuation of assets and liabilities

Consistent with companies which are liquidating their operations, all assets and liabilities are reflected at their estimated realizable value at December 31, 1996. Any gains or losses arising from revaluation of the assets and liabilities are recognized in the net gain (loss) for the year.

The value of the assets and liabilities are based on the manager's best estimates. Significant amounts received, payments made, and the results of any negotiated settlements subsequent to the balance sheet date were considered when estimating the value of the assets and liabilities.

(c) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date. Gains and losses are translated at the average exchange rate prevailing during the year.

Gains or losses from foreign currency translation are recognized in the net gain (loss) for the year.

Note 4 Taxes Recoverable

Taxes recoverable consist of the following:

	1996	1995
Provincial sales tax	\$ 117,000	\$ 117,000
Withholding tax - U.S.A.	50,000	51,000
Goods and Services Tax	9,000	7,000
	<u>\$ 176,000</u>	<u>\$ 175,000</u>

The Company paid \$117,000 to the Province of Ontario as a result of a sales tax reassessment. The Company has objected to the reassessment and, based on the opinion of its professional advisers, expects to recover the amount paid.

Withholding taxes paid to the Internal Revenue Service on intercorporate dividends are recoverable by the Company. The Company expects to recover 1994 withholding tax of \$50,000 in 1997.

Note 5 Amount Recoverable - Legal Action

The legal action relates to a claim against former NovAtel Carcom Inc. (Carcom) employees and others for fraud. Carcom was a subsidiary of NovAtel. During the year, the Company received \$18,000 (1995 \$20,000) in cash to complete the settlement of this claim.

Note 6 Bank Overdraft

The bank overdraft is guaranteed by the Province of Alberta (Province) and is secured by a general assignment of book debts and a general security agreement.

Note 7 Due to the Province of Alberta

Amounts due to the Province include:

- (a) A \$250,000,000 loan from the Province. This loan is interest free, payable on demand and secured by a general assignment of book debts and a general security agreement.
- (b) A \$667,000 loan guarantee fee.

Note 8 Termination and Closure Cost Accruals

At May 29, 1992, an accrual was recorded for costs expected to be incurred in the Company's liquidation. The accrual included projected costs through the completion of the liquidation for items such as litigation settlements, and management and legal services. The accrual is reduced as these costs are paid, and adjusted to reflect revised estimates in projected costs.

Note 9 Share Capital

	1996	1995
Authorized		
Unlimited number of common shares		
Issued		
15,940,100 common shares	<u>\$ 159,401,000</u>	<u>\$ 159,401,000</u>

Note 10 Contingencies

As a condition of the sale of NovAtel, the Company assumed the liabilities resulting from the settlement of several lawsuits against NovAtel that existed at May 29, 1992. An estimate of the cost of defending and/or settling these claims has been included in the accrual for termination and closure costs at December 31, 1996.

The Company and NovAtel filed a Statement of Claim for the payment of commissions due under a commission agreement between NovAtel and a cellular systems manufacturer. An estimate of the potential recovery for the benefit of the Company cannot be made.

The Company is party to several other lawsuits, the potential outcomes of which are not determinable, and as a result, an estimate of loss cannot be made.

Note 11 Salaries and Benefits

The company did not pay any salaries or benefits to its officers and sole director in 1996, and 1995.

Note 12 Comparative Figures

The 1995 figures have been reclassified where necessary to conform to 1996 presentation.

Note 13 Approval of Financial Statements

These financial statements have been approved by the Commission.



SECTION 3

1996-97 PUBLIC ACCOUNTS

CROWN-CONTROLLED CORPORATIONS - FINANCIAL STATEMENTS

Contents:	Page
Introduction	250
Treasury:	
Chembiomed Ltd.	251
Gainers Inc..	256

CROWN-CONTROLLED CORPORATIONS - FINANCIAL STATEMENTS

Introduction:

The enterprises included in this section are more than 50% owned or controlled by the Government and operate on the basis of full cost supported by charges for goods or services.

The basis of accounting used by Crown-controlled corporations is significantly different from that used for the General Revenue Fund. Adjusting financial statements of Crown-controlled corporations to this different basis would result in the write-off of significant revenue earning assets. Crown-controlled corporations are included in the consolidated financial statements on an equity basis whereby the Government's investment is adjusted for unremitted earnings and to reflect its share of capital transactions including loans to or from the corporation.

CHEMBIOMED LTD.
FINANCIAL STATEMENTS
MARCH 31, 1997

Auditor's Report
Balance Sheet
Statement of Operations and Deficit
Statement of Changes in Financial Position
Notes to the Financial Statements

AUDITOR'S REPORT

To the Shareholders of Chembiomed Ltd.

I have audited the balance sheet of Chembiomed Ltd. as at March 31, 1997 and the statements of operations and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting as described in Note 2 to the financial statements.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
May 22, 1997

CHEMBIOMED LTD.
BALANCE SHEET
MARCH 31, 1997
(see Note 1)

	<u>1997</u>	<u>1996</u>
ASSETS		
Current assets:		
Cash and short-term investments	\$ 298,463	\$ 251,349
Accounts receivable	13,138	54,207
	<u>311,601</u>	<u>305,556</u>
Computer equipment (Note 4)	-	943
Patents (Note 5)	<u>1</u>	<u>1</u>
	<u>\$ 311,602</u>	<u>\$ 306,500</u>
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 469	\$ 5,248
Due to a shareholder (Note 6)	15,874,759	15,874,759
Accrued interest and royalty payable to a shareholder	<u>5,369,666</u>	<u>3,964,119</u>
	<u>21,244,894</u>	<u>19,844,126</u>
Shareholders' deficiency		
Share capital (Note 7)	40,928,430	40,928,430
Deficit	<u>(61,861,722)</u>	<u>(60,466,056)</u>
	<u>(20,933,292)</u>	<u>(19,537,626)</u>
	<u>\$ 311,602</u>	<u>\$ 306,500</u>

Approved by the Board

Peter McNeil
Director

Robert Bhatia
Director

The accompanying notes are part
of these financial statements.

CHEMBIOMED LTD.
STATEMENT OF OPERATIONS AND DEFICIT
FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
Revenue:		
Royalty income	\$ 11,193	\$ 12,822
Interest income	7,401	3,819
Sales	4,655	4,742
	<u>23,249</u>	<u>21,383</u>
Expense:		
Interest on amount due to a shareholder (Note 6)	1,405,326	1,604,512
Operating	12,425	19,373
Amortization	943	1,106
	<u>1,418,694</u>	<u>1,624,991</u>
Loss from operations	1,395,445	1,603,608
Gain on sale of equipment	-	(52,850)
Royalty payable to shareholder (Note 8)	221	213
Loss before taxes	1,395,666	1,550,971
Tax on large corporations (1996 - refund)	-	(3,000)
Loss for the year	1,395,666	1,547,971
Deficit at beginning of year	60,466,056	58,918,085
Deficit at end of year	<u>\$ 61,861,722</u>	<u>\$ 60,466,056</u>

CHEMBIOMED LTD.
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997

	1997	1996
Operating activities:		
Loss for the year	\$ (1,395,666)	\$ (1,547,971)
Add: Charges to operations not requiring cash		
Amortization	943	1,106
Gain on sale of equipment	-	(52,850)
	<u>(1,394,723)</u>	<u>(1,599,715)</u>
Decrease in accounts receivable	41,069	47,933
Increase in current liabilities	1,400,768	1,595,916
Cash provided from operating activities	<u>47,114</u>	<u>44,134</u>
Investing activities		
Proceeds from disposal of equipment	-	52,850
Cash provided from investment activities	-	52,850
Increase in cash and short-term investments for the year	47,114	96,984
Cash and short-term investments at beginning of year	251,349	154,365
Cash and short-term investments at end of year	<u>\$ 298,463</u>	<u>\$ 251,349</u>

CHEMBIOMED LTD.
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997

Note 1 Discontinuance of Operations

Chembiod Ltd. is a Company incorporated under the Canada Business Corporations Act that was active in biotechnology and engaged in research, development and commercialization of human diagnostic and therapeutic health care products. The Company is controlled by the Province of Alberta and The University of Alberta.

The Company's operations were dependent on continued support from its shareholders. In November 1991, however, the shareholders announced that additional operating funds would not be provided and the Company was therefore unable to continue research operations. The research programs and certain research equipment were transferred to the Alberta Research Council. The Company since sold the remainder of its equipment, land and building, and licenced the patents.

The Company is no longer a going concern but has continued to sell its residual inventory and dispose of other assets and liabilities.

The Company is undertaking discussions with the Province of Alberta and The University of Alberta as shareholders and with Alberta Research Council with whom the Company has technology transfer agreements, with the view of winding up and dissolving the Company in the 1997-98 fiscal year.

Note 2 Significant Accounting Policies

Basis of accounting

Since the Company is no longer a going concern, assets have been written down to estimated realizable value, and provisions have been recorded for all anticipated losses.

Revenue

Sales includes revenue from all commercial products sold during the year.

Inventories

Inventories of finished goods at March 31, 1996 and 1997 were recorded as having no value.

Note 3 Income Taxes

The Company has non-capital losses carried forward of approximately \$11,250,000 which expire over the period to the year 2004, and current and capital scientific expenditures totalling approximately \$32,000,000 which may be carried forward indefinitely and deducted against any future taxable income.

Future benefit, if any, pertaining to the non-capital losses carried forward and the scientific expenditures have not been recognized in these financial statements.

Note 4 Computer Equipment

	1997	1996
Computer equipment	\$ 3,686	\$ 3,686
Less: Accumulated amortization	(3,686)	(2,743)
	<u>\$ -</u>	<u>\$ 943</u>

Note 5 Patents

The Company holds a number of international patents.

Under the provisions of a technology transfer agreement, the Alberta Research Council can use or sub-licence the Company's patents, intellectual property, proprietary information, bioactive carbohydrate research program and all other technology. The Alberta Research Council is not permitted to use any of the transferred items directly in commercial production, but may do so by way of sub-licences. Under such sub-licencing arrangements, the Company is entitled to receive royalties, after deducting certain costs of the Alberta Research Council, equal to the proportionate contribution to the commercial production of the value of the items transferred.

On April 28, 1995 an agreement was signed with Alberta Research Council which transfers the right to grant sub-licenses for the Company's chemical inventory. An exclusive sub-license agreement was signed with a private sector research company for the use and sale of certain of the Company's chemical inventory for which the Company is entitled to receive royalty revenue. Royalty revenue is not determinable until some time in the future when the private sector research company sells to a third unrelated party.

The Alberta Research Council has the right, but not the obligation, to maintain and protect any of the transferred patents. The Company may maintain and protect any such patents that the Alberta Research Council abandons.

As the realizable value of the patents cannot be reasonably ascertained, they have been written down to a nominal carrying value of \$1.

Note 6 Due to a Shareholder

During 1992, the Province of Alberta provided funding for the Company in the amount of \$7,000,000 which is secured by promissory notes. The notes bear interest at bank prime rate, calculated and payable semi-annually. Payment on the notes was demanded on September 30, 1994.

In October 1994, the Province of Alberta provided funding to the Company in the amount of \$13,224,759 to pay down the long-term debt and accrued interest. The amount due was subsequently reduced by the proceeds from the sale of the land and building of \$3,650,000 and a payment of \$700,000. The remaining amount due of \$8,874,759 bears interest at 9.89% per year. Payment on the amount due was demanded on November 8, 1994.

Note 7 Share Capital

	1997	1996
Authorized		
4,275,000 non-participating non-voting preferred shares, with a stated value of \$10 per share, redeemable at \$10 per share plus declared unpaid dividends		
Unlimited number of common shares		
Issued		
3,065,909 preferred shares	\$ 30,577,586	\$ 30,577,586
1,126,924 common shares	<u>10,350,844</u>	<u>10,350,844</u>
	<u>\$ 40,928,430</u>	<u>\$ 40,928,430</u>

Note 8 Royalty Agreement with a Shareholder

A Royalty Agreement with the Province of Alberta requires the Company to pay the Province a royalty of 3.5% of gross sales commencing April 1, 1991 and increasing by 0.25% of gross sales each April 1 thereafter until such time as the Province no longer holds any preferred shares. The first royalty payment was due June 29, 1992. Although the Company has discontinued operations, it has continued to sell residual inventory since April 1, 1991. Accordingly, a liability of \$69,206 (1996 \$68,985) for royalty payable is reported at March 31, 1997.

Under the terms of the agreement, the Company shall not, at any time while it remains liable to pay any royalty to the Province, allot or issue any shares in its capital stock, declare or pay dividends on its common shares or amend or vary its Business Plan, except as required by the agreement or with the written consent of the Province.

In the event that the Company breaches or is in default of any of its obligations to the Province, the Province can require the Company to purchase any number of the preferred shares held by the Province at the price of \$10 per share.

Note 9 Related Party Transactions

Interest charged by the Province of Alberta amounted to \$1,405,326 (1996 \$1,604,512). Royalty payable to the Province of Alberta amounted to \$221 (1996 \$213).

Note 10 Budget and Salary Disclosure

As the Company has ceased research operations, no budget or salary information is provided.

GAINERS INC.
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 28, 1996

Auditors' Report
Consolidated Balance Sheet
Consolidated Statement of Income and Deficit
Consolidated Statement of Changes in Financial Position
Notes to Consolidated Financial Statements

AUDITORS' REPORT

To the Shareholder of
Gainers Inc.

We have audited the consolidated balance sheet of Gainers Inc. as at September 28, 1996 and the consolidated statements of income and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at September 28, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Price Waterhouse
Chartered Accountants

Edmonton, Alberta
December 1, 1996

GAINERS INC.
CONSOLIDATED BALANCE SHEET
(in thousands of dollars)

	September 28 1996	September 30 1995
ASSETS		
Cash	\$ —	\$ 2
Accounts receivable	782	770
Prepaid insurance	79	199
Fixed assets (Note 3)	59	127
Other assets (Note 4)	996	488
	<u>\$ 1,916</u>	<u>\$ 1,586</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 379	\$ 584
Principal and interest on prior years' income taxes (Note 5)	5,600	5,200
Long-term debt (Note 6)	199,995	200,065
	<u>205,974</u>	<u>205,849</u>
CAPITAL AND DEFICIT		
Share capital (Note 7)	1	1
Contributed surplus	15,002	15,002
Deficit	(219,061)	(219,266)
	<u>(204,058)</u>	<u>(204,263)</u>
	<u>\$ 1,916</u>	<u>\$ 1,586</u>
Contingencies (Note 8)		

Approved by the Board D. Harrington, Director

GAINERS INC.
CONSOLIDATED STATEMENT OF INCOME AND DEFICIT
(in thousands of dollars)

	Year ended September 28 1996	Year ended September 30 1995
Income		
Lease revenue and other income	\$ 207	\$ —
Gain on termination of pension plans (Note 4)	1,500	—
Gain on sale of Sodor property	403	—
Gain on sale of Brantford property	—	34
Recovery from legal actions	92	770
	<u>2,202</u>	<u>804</u>
Expenses		
General and administrative	1,597	851
Other costs		
Province of Alberta		
Default expenses and guarantee fees	—	422
Interest on income tax reassessment	400	740
	<u>1,997</u>	<u>2,013</u>
Income (loss) for the year	205	(1,209)
Deficit at beginning of year	(219,266)	(218,057)
Deficit at end of year	<u><u>\$(219,061)</u></u>	<u><u>\$(219,266)</u></u>

GAINERS INC.
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(in thousands of dollars)

	Year ended September 28 1996	Year ended September 30 1995
Cash was provided by (used for)		
Operations		
Income (loss) for the year	\$ 205	\$ (1,209)
Item not requiring cash		
Gain on sale of Brantford property	—	(34)
Gain on sale of Sodor property	(403)	—
	(198)	(1,243)
Net change in non-cash balances	(205)	1,822
Total from operations	(403)	579
Financing activity		
Repayment of long-term debt	(70)	(735)
Investment activity		
Proceeds on disposal of assets	471	215
Increase (decrease) in cash for the year	(2)	59
Cash (bank indebtedness) at beginning of year	2	(57)
Cash at end of year	<u><u>\$ —</u></u>	<u><u>\$ 2</u></u>

GAINERS INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 SEPTEMBER 28, 1996
 (tabular amounts in thousands of dollars)

Note 1 Basis of presentation

The consolidated financial statements of the Company include the accounts of Gainers Inc. and its wholly-owned, subsidiary companies: Gainers Properties Inc. ("GPI") and MPF Note Inc. (collectively the "Company"). MPF Note Inc. was inactive during the year.

Through September 25, 1993, the Company operated on a going-concern basis which contemplated the realization of assets and discharge of liabilities in the normal course of business. Events since that date have resulted in the discontinuance of all ongoing business.

Note 2 Investment in and amounts due from former affiliates

The investment is comprised of 77,500 Class A preferred shares of Pocklington Corp. Inc. with a par value of, and which are redeemable at, U.S. \$100 per share and which carry annual non-cumulative dividends of U.S. \$11 per share. In November 1989, a demand for redemption of the shares was made by Gainers Inc. and an action was commenced against Mr. Peter Pocklington arising from this investment, seeking by way of damages the monies invested together with interest thereon. Mr. Pocklington has counterclaimed seeking statutory indemnification as a director for his actions. Management believes that this counterclaim is without merit. Final determination of the realizable value of the investment is subject to the outcome of the various actions.

Advances to the former affiliate are non-interest bearing and have no specific terms of repayment. In January 1990, Gainers Inc. made demand on and brought an action against Pocklington Financial Corporation (formerly Pocklington Holdings Inc.) to recover the advances. In December 1995, a judgement was rendered and collected in favour of Gainers Inc. in the amount of \$770,000. This amount has been recorded as a receivable at September 30, 1995. The amount is currently held in trust since the Company has appealed this decision, as the Company believes the amount of the judgement should have been higher. The outcome of the appeal is not currently determinable.

On August 8, 1989, Gainers Inc. acquired the shares of 350151 Alberta Ltd. ("350151") for \$100 cash. On October 4, 1989, Gainers Inc., at the direction of the former owner, sold the shares of 350151 to Pocklington Holdings Inc. for \$100 cash. The Province of Alberta is attempting to have the sale reversed (see Note 8(a)). The accounts of 350151 are not included in these accounts. In December 1995, a judgement as to the ownership of the shares was rendered in favour of Pocklington Financial Corporation. The Province has appealed this decision.

Note 3 Fixed assets

On March 28, 1996, GPI disposed of its land in Val Belair, Quebec. Net proceeds on sale were \$471,500.

Note 4 Other Assets

The two defined benefit plans of the Company, being Gainers Inc. Salaried Employees' Pension Plan and Gainers Inc. Hourly Pension Plan (locations other than Edmonton), have been wound up. The liabilities of the plans have been fully discharged and the surplus from the pension plans has been recovered by Gainers Inc. The surplus is subject to a secured charge and claim by 369413 Alberta Ltd. on behalf of the Province.

Note 5 Income Taxes

The Company has capital and non-capital income tax losses available for carry forward to reduce taxable income of future years. Revenue Canada Taxation ("RCT") has issued reassessments and proposed adjustments that could result in reductions to the losses available for carry forward.

Note 6 Long-term debt

	September 28 1996	September 30 1995
Province of Alberta		
Term loan, originally payable by semi-annual instalments commencing April 1, 1991 of \$964,650 principal and interest; interest at 9.6%	\$ 6,000	\$ 6,000
Assignment of prior operating loans from previous banker		
Term bank loan (U.S. \$8,749,339), interest at prime plus 1-1/2%	11,567	11,567
Operating loan, interest at prime plus 1-1/2%	20,979	20,979
Manual loan	5,000	5,000
Advances under guarantee for principal and interest payments	31,947	31,947
Promissory note, interest at prime plus 3%	49,000	49,000
Advance to facilitate sale	13,000	13,000
Advances under guarantee and indemnity for operating line	18,469	18,469
Default costs and guarantee fees, interest at prime plus 3%	9,542	9,612
Accrued interest	34,491	34,491
	<u>\$199,995</u>	<u>\$200,065</u>

Fair market value of the long-term debt is dependent on outcomes from claims filed by or against Gainers Inc. and recoveries from the sale of fixed assets. Due to the uncertainty of these items, the fair value as at September 28, 1996 is estimated to be \$nil.

Province of Alberta

On September 25, 1987, Gainers Inc. and GPI entered into the Master Agreement with Alberta which provided for a term loan facility and a loan guarantee. A number of events of default, which still continue, occurred during 1989, resulting in the long-term debt and liability to Alberta becoming due and payable. Alberta acted on its security and, on October 6, 1989, took control of Gainers Inc.'s issued and outstanding shares which, previous to this, were controlled by Mr. Peter Pocklington.

As at October 6, 1989, operating loans of \$20,979,000 and a term loan of U.S. \$8,749,000 were transferred and assigned to the nominee. In addition, Alberta has made payments since October 6, 1989 of \$87,422,000 under the guarantee to cover principal and interest payments due, including the purchase in December 1993 of the balance due under the promissory note.

Interest

The interest on the loans and other indebtedness owing to Alberta has not been paid in accordance with the terms of the indebtedness. Effective February 5, 1994 Alberta declared all indebtedness owing by the Company to Alberta to be non-interest bearing from the later of February 5, 1994 and the date the indebtedness to the Province of Alberta was incurred.

Security

Collateral security for the indebtedness to Alberta includes a general assignment of book debts, general security agreements over all real and personal property of the Company, a pledge of inventory, and fixed and floating charge debentures amounting to \$70,000,000 covering all of the assets of the Company. The Company continues to be in default and in breach of certain covenants of this indebtedness.

Master Agreement

The Master Agreement provided for Alberta to advance a term loan to GPI in the aggregate amount of \$12,000,000. As at September 30, 1989, \$6,000,000 of the term loan had been advanced. An interest payment due on October 1, 1989 was not made and Alberta, acting on its security, seized control of the Company. Since default has occurred under the Master Agreement, the entire amount of the monies advanced for the term loan are due and owing by GPI to Alberta. The term loan which has been advanced, and interest thereon, and the performance and observance of the other covenants of GPI under the Master Agreement, including the obligations of GPI to Alberta in respect to the promissory note, is collaterally secured by a demand debenture made by GPI to the nominee in the principal sum of \$67,000,000 dated September 25, 1987 and constituting a fixed mortgage and charge over all of the real property, equipment and chattels of GPI and a floating charge over all of the undertaking and other property and assets of GPI, and by a pledge by GPI of preferred shares held by GPI in Gainers Inc.

Note 7 Share capital

	September 28 1996	September 30 1995
Authorized		
Unlimited number of Class A common shares		
Unlimited number of Class B preferred shares redeemable/retractable at \$1 per share with non-cumulative annual dividends at a rate not exceeding 16% of the redemption value		
12,000,000 of Class C preferred shares redeemable at \$1 per share with cumulative annual dividend compounded semi-annually at 9.6% of the redemption price		
Issued		
101 Class A common shares	\$ 1	\$ 1
6,000,000 Class C preferred shares	<u>6,000</u>	<u>6,000</u>
	6,001	6,001
	<u>6,000</u>	<u>6,000</u>
Less: 6,000,000 Class C preferred shares held by GPI	<u>\$ 1</u>	<u>\$ 1</u>

Note 8 Contingencies

- (a) The Company and Alberta have filed claims against Mr. Peter Pocklington and companies controlled by him for recovery of certain loans, payments and other transactions prior to October 6, 1989. The claim aggregates approximately \$38,000,000 plus interest. Ultimate recovery of this claim cannot be determined at this time.
- (b) Gainers Inc. is defending an action by Mr. Peter Pocklington, Edmonton Oilers Hockey Corp., Palm Dairies Limited, and 350151 concerning a financial guarantee bond and indemnity amounting to \$1,500,000. The potential loss, if any, is not determinable and, accordingly, no provision has been recorded with respect to this claim.
- (c) Under the terms of the Master Agreement, the Company and Mr. Peter Pocklington are liable for all losses, expenses, costs and claims incurred by Alberta as a consequence of a default by GPI or by any other member of the group or Mr. Pocklington. As a result, since the date of default the Company has provided approximately \$9,500,000 in the consolidated financial statements for these costs and expenses. It is expected that further costs and expenses will be incurred in the future as a result of continuing default.
- (d) During 1991, an employee filed a claim for damages for constructive dismissal in the amount of \$520,000 and damages for breach of contract in the amount of \$2,000,000, plus interest and costs against Gainers Inc. The Plaintiff offered to settle for \$950,000. Gainers Inc. has filed a statement of defence and, in the opinion of management, any settlement should be substantially less than the claim. Gainers Inc. has also brought a Third Party Claim against Mr. Peter Pocklington for any damages payable to the employee. An appropriate amount has been provided for in the accounts.
- (e) Gainers Inc. and others are defendants in an action brought in the State of California by a number of California Jack-In-The-Box franchisees. The franchisees seek damages for economic loss arising from the adverse publicity surrounding an outbreak of E-Coli poisoning at a number of Jack-In-The-Box restaurants in the State of Washington. The primary insurers of Gainers Inc. have defended the claims by the California franchisees until recently, but have now taken the position that the insurance coverage of Gainers Inc. does not extend to claims for economic loss such as the claims of the California franchisees. Gainers Inc.'s excess insurers have taken over defence of the California Action and the excess insurers are disputing the primary insurers' right to deny. It is premature to assess the liability, if any, which Gainers Inc. may have to the California franchisees or to determine whether the primary insurers of Gainers Inc. are justified in denying coverage of the claims of the California franchisees.
- (f) Alberta has brought a claim against Mr. Peter Pocklington for \$4 million plus interest and costs. Mr. Peter Pocklington has brought a counter claim against the Company in which Mr. Pocklington claims indemnification for the entire amount of the main claim.

Note 9 Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

1996-97

PUBLIC ACCOUNTS

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